JULY 1955

The Mortgage Banker

Midsummer reminder of the mortgage industry's principal event for [illegible], MBA's [illegible] annual Convention, Los Angeles, October 31-November 3. Scenes in the Convention city and along the way, our headquarters hotels, picturesque Olvera Street, an early Spanish mission and Grand Canyon.

MORTGAGE BANKERS ASSOCIATION OF AMERICA
MBA
ORGANIZED 1914

in this issue

CLAUDE BENNER ON THE OUTLOOK FOR [illegible] FINANCING;
THE WHY AND HOW, BY JOHN J. REDFIELD

1955 MBA Calendar

July 31-August 6—School of Mortgage Banking, Course I, Stanford University, Stanford, Calif.

October 31-November 3—42nd Annual Convention, Statler Hotel and Biltmore Hotel, Los Angeles.

The Law in Your State

In an early issue of *The Mortgage Banker* we will begin the publication of a series of tabulations, one for each state, giving the regulations covering the investment of mortgage and real estate funds in that state. It will be a simple, easy-to-read table which will show at a glance how savings and loans, savings banks, trust funds, banks and life companies can invest. It will specify the maximum loans and terms, amortization, facts regarding leasehold loans and such recent information as laws governing open-end mortgages. Legal sources in all cases are cited. Nothing quite like this has been presented before, certainly not in such compact form. It's our thought that members will want to make a file of these tabulations for ready reference. Possibly some members will want a similar file for their attorneys.

This is a project of the Research Committee and had its inception with the 1952-53 group. Paul A. Nalen, vice president and manager, city investment department, of The Mutual Benefit Life Insurance Company, and now vice chairman of the Research Committee, can be credited with a good part of the great amount of work that has gone into the project. The magazine will present four tabulations each month, continuing until every state has been covered.

>> MID-SUMMER REMINDER: Before your vacation begins, better check your plans for MBA's Los Angeles Convention, October 31-November 3, to see that you have not over-looked anything.

The Mortgage Banker

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Volume 15 **JULY, 1955** **Number 10**

Contents

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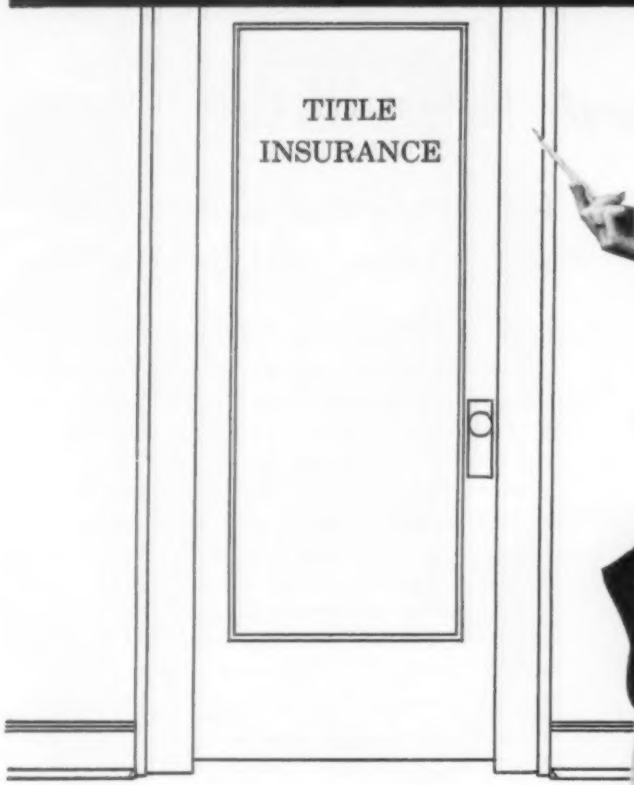

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Observations at Random

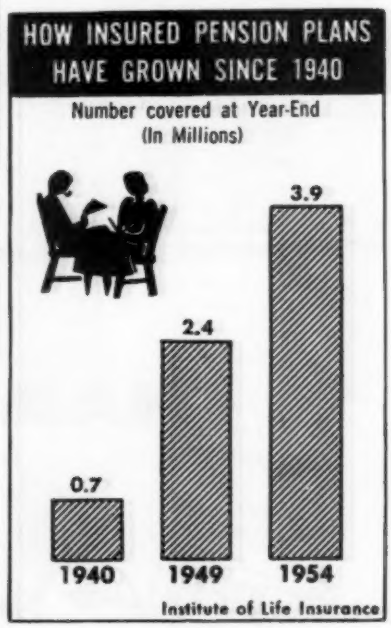
PENSION FUND GROWTH

Nearly 4,000,000 men and women in 17,280 groups have accumulated almost $10,000,000,000 towards their retirement income through pension plans insured by life companies. This represented a material increase in pension protection, although fewer new pension plans were set up in 1954 than in the previous year.

The income set up for future payment under these insured pension plans is in excess of $1,600,000,000 and is increasing as additional annual increments are paid for by employer-employee groups. The premiums set aside by these groups totaled $1,325,-000,000 last year, of which approximately 80 per cent was paid by the employers and 20 per cent by the employees.

These figures, as of the start of 1955, show an increase over the previous year of more than 200,000 persons covered, a rise of 1,450 groups in force, an increase of $150,000,000 in annual income set up for retirement and premium payments of $40,000,000 more than the year before.

Although last year saw a decline in new plans, the insured pension



structure at year-end was materially larger than five years ago. Today's $9,800,000,000 reserves of such plans have more than doubled since 1949, the number of plans is 6,630 larger and the number of persons covered is up 1,520,000.

Group annuities comprise the largest single block of persons covered by insured pension plans. Some 3,185,000 persons in 4,170 groups were covered by group annuities at the start of this year. This was more than 80 per cent of the total number of persons covered by insured pension plans. The income set up under the group annuities comprised 63 per cent of the aggregate income under all insured pension plans, for the reason that most group annuities are reported on the basis of annual increments paid for to date, with additional amounts paid for each year the worker continues under the group coverage.

A large and growing portion of the group annuities is made up of a relatively new type called the "deposit administration plan" which accumulates an undivided fund out of which annuities are purchased as the individual members of the group retire. More than 835,000 workers are now covered by this type of plan, mostly set up in the past five or six years.

Individual policy pension trusts, making use of regular life insurance retirement income policies or other life insurance policies on the individuals covered, accounted for the largest number of plans, some 11,550, but covering relatively small worker groups, they accounted for only about 455,000 workers, with about $425,000,000 annual retirement income set up for them.

LIFE COMPANY REALTY

Real estate investments of the more than 900 U. S. life companies increased $92,000,000 in the first quarter to an aggregate of $2,367,000,000 on March 31.

More than half of the realty holdings were commercial and industrial rental properties, which totaled $1,353,000,000. First quarter purchases of this type of real estate amounted to $65,000,000. These holdings have almost entirely been added since the end of World War II.

THE TYPICAL FHA LOAN

Last year FHA insured mortgages on 222,665 homes, 55 per cent of which were new. Typical FHA borrower had an income of $5,139 a year, highest on record and over 5 per cent higher than in 1953. He bought a property valued by FHA at $10,678, including land with a market price of $1,456. He obtained an 85 per cent loan for $8,862, which he contracted to repay over a period of about 23 years.

His monthly installment of $68.62 covered real estate taxes and hazard and mortgage insurance premiums in addition to debt service. It amounted to a little over 15 per cent of the borrower's income.

The property was a 5½-room house with three bedrooms, designed for single family occupancy. It had a floor area of 961 square feet.

Garage facilities were included in two-thirds of all new homes and over four-fifths of all existing homes.

The typical existing home on which the FHA insured mortgages in 1954 was larger and more expensive than the typical new home. The mortgage amount and the monthly payment were greater, and the term for repayment was shorter.

The typical purchaser of an existing home had a somewhat higher income than the new-home purchaser and made a larger down payment, but the mortgage payment represented a smaller proportion of his income, and the ratio of his income to the property value was smaller.

The typical existing home was valued by FHA at $11,549, including a lot priced at $1,607 and a 5½-room house with a floor area of 1,035 square feet and three bedrooms. The mortgage amounted to $9,030, or 78 per cent of the property value. It provided for monthly payments of $74.34 over a 20-year term.

Over 35 per cent of all home mortgages insured by FHA in 1954 were made by mortgage companies, and 34½ per cent by commercial banks.

The typical property value was higher in the District of Columbia than in any of the states—$16,750 for new homes and $13,833 for existing homes.

In general, floor area and number of rooms tended to be greater in the Southern states than elsewhere. The average mortgage on a new home was highest in Connecticut and lowest in New Hampshire.

The monthly mortgage payment ranged from $59.39 in Florida to $88.28 in Colorado.

Monthly income of the typical borrower financing a new home varied between $362.48 in Vermont and $619.47 in Nevada.

$ $ FLOW INTO MORTGAGES

Mortgage financing took the biggest share of the $4,557,000,000 investments made in the first quarter by U. S. life companies.

The aggregate of mortgages acquired by the life companies was

$1,578,000,000, some 50 per cent more than in the corresponding period of 1954. The quarter's net increase in mortgage holdings was $799,000,000, bringing the aggregate to $26,727,000,000.

Life companies invested $1,105,000,000 in corporate securities in the quarter, about 1 per cent more than a year ago. The greatest increase in this portfolio was in industrial bonds, bought in the amount of $693,000,000, some 16 per cent more than a year ago. On March 31, the life companies' corporate security holdings were $37,384,000,000, up $527,000,000 since the start of the year and $2,333,000,000 over the total one year ago.

Investments made by the life companies in the quarter came from $1,559,000,000 of new capital through increased assets and $2,998,000,000 of reinvestment funds resulting from maturites, amortizations and sales of previous holdings.

190 MILLION BY 1970

The next 20 years will afford most businesses almost unprecedented opportunity. This conclusion is based on an overall evaluation of prospective markets on the local, national and world levels by Philip M. Hauser of the University of Chicago, famed economist.

It is possible that the population of the United States by 1970 will approximate 190 million persons or an increase of about 40 million over the 1950 Census returns. This will represent an increase in the national market in the next 20 years about equal to that of the entire Northeastern Atlantic States, New York, New Jersey and Pennsylvania. The increase in the population of the U. S. between 1950 and 1970 is likely to be greater than the entire population of the U. S. in 1870.

The nation's labor force will increase by 20 million workers by 1970 to reach a total labor force of 84 million persons. The economy thus will have both the opportunity to employ 84 million workers and the challenge to provide 84 million jobs by 1970.

For businesses interested in the world market, great expansion may also be foreseen. The world population is likely to increase by from half a billion to one billion persons in the next 30 years if present trends are projected. Such an increase in world population will represent an additional world market equal to all of Europe in 1950 at the lower rate, and all of Asia at the higher rate of increase.

Much of the world increase is, of course, in areas of low purchasing power. However, an increase of from 62 to 170 million persons may be anticipated by 1980 in the Western world alone; and an additional 185 to 400 millions in countries now experiencing industrialization in which purchasing power may be expected greatly to increase.

WE OWE $605 BILLION

Businesses, individuals and governments in the U. S. owed 3½ per cent more at the end of last year than at the end of 1953.

In 1953, this red ink figure had climbed 5 per cent above 1952.

Total net debt at the end of 1954 was $605.5 billion. At the end of 1953, total debt amounted to $584.7 billion.

To get these figures, the Commerce Department sums up nearly everything owed by everybody, every corporation and every governmental unit. About the only debts not listed are cash owed one individual by another and debts of unincorporated, non-financial businesses. Nor does it count the amounts owed by, say, one federal agency to another.

Corporate liabilities, home mortgages and other private debts made up nearly 60 per cent of last year's total. Federal debt accounted for about 35 per cent and state and local government debts came to about 5 per cent.

Public debt rose 2.7 per cent during 1954 to $263.6 billion at the year-end. Private debt increased more rapidly, 4.2 per cent, to $341.9 billion at year-end.

Last year's expansion of net private and public debt was concentrated mainly in long-term borrowing by home-buyers, corporations and state and local governments. A drop in short-term corporate liabilities more than offset a sharp rise in security loans and relatively smaller advances in consumer, farm and commercial credit.

To get a closer look at last year's debt trends:

» Home and other non-farm, non-corporate mortgage debt rose $11 billion to a year-end total of almost $95 billion. This advance, sharper than in 1953 and 1952, ran hand-in-hand with a general easing of credit conditions and a marked upsurge in construction activity.

» Net long-term corporate debt at the end of last year totaled $84 billion, up $5 billion from 1953. The boost helped finance corporate spending of some $20 billion for new plant and

(Continued on page 35)

DON'T BUCK THE TREND:

The great bulk of loans originated for investment offerings are covered by title insurance.

To investors in mortgage loans, title insurance policies say: "You are protected against financial losses which may be caused by mistakes made in abstracting and examining titles and in preparing legal papers affecting title. You are also protected against losses caused by concealed title defects, such as forged deeds and releases. Moreover, should anyone ever question the titles to the properties securing your loans, the insurance company will defend, without any cost to you, all legal actions or proceedings against you which allege the titles to be other than as insured."

If you would like to consider making your mortgages safer and therefore better mortgages with title insurance, we shall appreciate an opportunity to consult with you.

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TIME TO STOP, LOOK AND LISTEN IN MAKING MORTGAGE LOANS

AT A TIME like the present when we are building over twice as many new housing units as there are new family formations, when the total amount of mortgage debt has been increasing rapidly for over a decade, and when, on the average, the mortgagor's equity in his house is becoming less and less, it behooves those who are trustees for other people's money to survey carefully the mortgage situation if we continue to invest such a large portion of our funds in mortgage loans as we have been doing in the recent past.

Claude L. Benner

We are now in the tenth year of a building boom. Never before has the upward movement in a real estate cycle lasted so long. Throughout the cycle construction costs have risen year by year until today they stand at an all-time high, about 300 per cent over what they were in the mid-thirties and about 70 per cent over what they were so recently as 1947. Yet these rising costs, while they have no doubt changed the size of the house and cheapened the materials out of which it is built, have apparently not retarded the number of new houses, because right at the moment we are building or planning to build more new housing units than in any previous year in our entire history.

Many factors have been responsible for this building boom, but I think it is generally admitted that the most important factor in keeping it going *so long* has been the ease with which mortgage credit could be obtained. Not only have ample funds been present to finance this building, but there have been times when such funds were so abundant and so cheap that builders were encouraged to undertake the building of more houses than there were materials and labor with which to build them.

The result was the creation of a black market in many building materials and the payment of wages even higher than those called for in the union scale. This was particularly true in 1947-48 when Fanny May was in active operation. I think that there is little doubt that the overabundance of mortgage funds was at least partially responsible for the rapid increase in construction costs which has taken place since the close of the war. This much I am certain is true: without FHA and without the VA loan our building boom would not have reached its present proportions, nor would it continue long in the future if the very generous mortgage terms provided by these agencies were withdrawn.

Housing activity during the past decade has grown more and more dependent on financing underwritten by the government. FHA-insured mortgages have long been an important factor in this respect. But it was not until last year that the VA mortgage became so prominent. Until 1954 about one out of every seven houses was financed with a VA loan. In 1954, however, about one out of every four new houses built was financed with a VA loan. Currently the ratio is running about one out of three.

The terms of both the FHA and VA mortgages were always generous. They were made even more generous by the 1954 Housing Act. The FHA now calls for only 5 per cent down payment on the first $9,000 and 25 per cent on the remainder. It permits a 30-year payout. VA terms were al-

By CLAUDE L. BENNER

President, Continental American Life Insurance Company

Claude Benner is a student of mortgage lending and an investor in mortgage loans. As a commentator on mortgage developments, his opinion has been one which lenders and investors have always been keenly interested in hearing. Recently, during the public discussion about the possibilities of excesses in our part of the economy, the Benner viewpoint has not been heard. But here he goes into the various influences which make up the mortgage situation and states the case for confidence—but caution as well. Some Benner conclusions: We're not over-built but the present rate of homebuilding is excessive. The building boom has been based upon cheap—perhaps too cheap—credit. The 30-year no down payment VA loan ought to be abolished. The constantly increasing volume of mortgages going FHA and VA is not a good trend.

ways more liberal than FHA and they now can be made with no down payment and for a term as long as 30 years.

Home ownership under these terms is equivalent to rent and frequently costs even less.

It is interesting to contemplate what could possibly slow up a building boom if it can be financed with 100 per cent mortgages written for such long terms and at relatively low interest rates. Frankly, I do not know what would do it. I feel certain, however, that such financing, if it ever assumed really substantial proportions and was long continued, would ultimately bring disaster in the real estate and mortgage loan fields.

Experience shows that while there will always be personal circumstances responsible for individual foreclosures, whenever there has been a large number, three main causes have been responsible:

- Over-building
- Failure of personal income and
- Decline in building costs.

So far as trouble might come about from a decline in costs of construction, I think there is little to worry about. The hourly costs of labor steadily trend upward and in spite of all that can be done in the way of using cheaper materials, costs continue to rise. The building of houses is not susceptible to large savings through the introduction of labor-saving machinery. While there have been some notable improvements in large-scale developments where the same type of house has been erected over and over again, nevertheless by and large the process of building continues to be carried on by crafts and increased wages tend to be passed on to the consumer in higher prices because it is not possible to absorb them by employing more efficient methods of production.

We need not fear, therefore, that the security back of our mortgage loans will be jeopardized through decreased costs of building.

But those who can remember the real estate situation which existed in the 30's realize that a real estate market can become completely disorganized and houses sell for 50 per cent or less of their costs of reproduction whenever there is a substantial oversupply of houses in existence. The demand for houses apparently is a rather in-elastic one. People must have shelter and whenever adequate housing is insufficient to meet the demand, rents and sale prices will skyrocket. The exact opposite is true

when there is a small surplus of houses in a community. It only takes a relatively few vacant houses or empty apartments to start undermining the going scale of rentals. Likewise, whenever developers find themselves with some finished houses on hand which they are unable to sell except at a loss, the upward movement in prices will immediately stop and quickly turn downward. This can all happen without any material change in the costs of construction.

As I stated, we are building over twice the number of housing units as there are new family formations. This is causing a good deal of concern on the part of those who are financing this building. Such questions naturally arise as "Is the country being overbuilt?", "Can the present volume of construction long continue without causing trouble?", "What will happen to real estate prices if we get a surplus of houses?", "Will it jeopardize the security back of our mortgage loans?"

It is generally assumed that the demoralized real estate market which began about 1930 was caused by the stock market crash. It is true, of course, that the stock market crash and the business depression which followed prolonged the real estate depression. My studies lead me to believe, however, that during the 20's we built too many houses in relation to family formation. We did during the four years, 1925-29, and in this respect we are doing that today. The residential real estate market had begun to decline before the stock market crash of 1929. I remember attending a meeting of the Harvard Economic Society in 1929 when the late William Peter Hamilton, editor of *The Wall Street Journal,* said "At last I have lived to see New York City over-built in every respect, apartments, office buildings, stores, residences and even churches." As we know, it took nearly 10 years to grow up to what had been built.

While we over-built houses in the 20's in relation to family formations, to an even greater extent we underbuilt them during the 30's and 40's so that if we add up the three decades, 1920 to 1949, we find that we only built four houses for every five new households which were formed during this period. Some students think that we still haven't made up this deficit. But if the backlog of demand from the underbuilding of the 30's and 40's has not yet been worked off it soon will be at the current rate of building. Not for long can we build two new houses for every new family started without causing trouble, because family formation is now far below the immediate post-war years and will continue at relatively low levels until the 1960's.

Fortunately, while family formation is the largest single market for new homes, it is by no means the only one. Obsolescence is another important factor in housing demand. The 1950 census found that virtually half the nation's homes were over 30 years old. Thirty years is, of course, an arbitrary dividing line, for many homes older than this are in good

condition with a long, useful life ahead. Replacement of only 1 per cent of these older homes each year would call for over 200,000 new units. This is the number where obsolescence is a physical fact; the house is worn out. There is, in addition, obsolescence through changing tastes. An ever-increasing percentage of our adult population is accustomed to the modern, more efficient home. To this group the typical old house, despite its relative roominess and long-standing landscaping, is not appealing.

There is a growing dissatisfaction with the definitely sub-standard housing that still bulks large in many major cities, particularly in the older metropolitan areas. The present occupant is less passive than his forebearers in his acceptance of this type of housing; and so long as he can borrow the money to buy a better house he probably will buy it.

Against the background of lower family formation, and giving due allowance for obsolescence and substandard housing, still it seems inescapable that the present home-building boom rests importantly on large replacement demand stemming from the record baby crops of recent years, from the increased mobility of our population, and from their rising personal incomes.

While babies do not buy houses they certainly yell for more living space. Homes built in the immediate postwar years were typically two-bedroom houses. With the second, third, and often fourth child these homes became inadequate. A survey of the houses being built in my home city of Wilmington today shows that the size of the average for-sale house now going up contains three bedrooms and is larger in almost every respect than its 1950 counterpart. Births last year again set a new record. There were four million. Almost one new baby for every twelve houses in one year alone! So far as an increase in population encourages new building, the country is lacking nothing in this respect.

Mobility of population takes two forms:

» Change from one city to another usually because of health, retirement or change in job.

» Moving from the city to the suburbs or from an older to a newer suburb.

These two pronounced populational shifts continue unabated. One out of five Americans move every year. This can make housing shortages in certain cities even when there may be a surplus of housing in the nation as a whole.

Recently Administrator Albert M. Cole said in a speech before the Home Builders Association that there is almost an insatiable demand for housing at this time, that ample financing is available and that the market can sustain a large volume of new building for a long time.

I don't doubt it. But it is a common observation that while everyone wants a Cadillac not everybody can afford one. The translation of this latent demand into actual housing demand depends on sustained high personal incomes and easy mortgage terms. What would happen if the national income should fall off and unemployment materially increase is rather frightening to contemplate.

Among the principal causes which have been chiefly responsible for the availability of mortgage money on easy terms during the past two years and which has made possible the building boom are:

» The increase in GI mortgage interest rate from 4 per cent to 4½ per cent, together with the reduction in the required down payment. This increase removed the principal objection which many lenders had to GI loans.

» The liberalization of FHA terms in the 1954 Housing Act.

» The decline in interest rates on long-term bonds which began in the latter part of 1953 and which made mortgage loans more attractive.

» The remarkable increase in savings deposits and the rather unexpectedly large repayments on outstanding loans. It was difficult to keep the funds invested at adequate rates.

In brief, the situation may be summarized by saying that over the past two years substantially more people became eligible for government-insured loans and lending institutions found that mortgages were comparatively a more attractive investment than bonds.

The government is now studying the housing situation to determine whether home building is excessive. There are indications it may stiffen the terms of its insured and guaranteed mortgages if it finds that such is the case.

But regardless of government action (which because of political implications I do not think is likely to be very drastic) lenders have the power to reduce the present level of home building if they become more selective in making mortgage loans. Already in some localities speculative builders are finding that it is one thing to qualify a purchaser for a government-insured mortgage and quite another thing to find an ultimate home for that mortgage with a lending institution. Lending institutions are giving serious consideration not only to the relative yields obtainable from mortgages vs. bonds, but also to the extent to which they are already committed to make mortgages. After all, insurance companies and savings banks must consider the diversification of their portfolios. They must also consider the rate of growth in their assets, the prospective repayments on their outstanding loans, as well as the demand which they are likely to have for funds from other sources.

There is more and more evidence of increasing selectivity on the part of many lenders. Some are now demanding discounts on 30-year no-down-payment GI loans. Others are refusing to make loans for such a long period of time, while still others are requiring a larger down payment than mandatory under the Act. There are also evidences that many lenders are underwriting all mortgage loans more closely than they were a year ago, giving increased attention to the type of job held by the prospective borrower as well as the locality in which his house is built.

In fact, there has been taking place a basic change in the market for *all fixed-income investments,* including mortgages, since the turn of the year. Demand for long-term funds has risen to the point where it not only equals the supply, but actually threatens to exceed it. As a consequence, interest rates have been firming slowly but unmistakably, money has been growing tighter, and yields on bonds, mort-

gages and similar securities have tended to rise.

Any fundamental change of this nature comes slowly and lasts for some time and usually continues until there is a fundamental change in the level of business activity or in governmental credit policy. With all types of construction booming, with the level of business high and with stock prices steadily going up, it is not likely that the demand for credit will decrease and/or that our banking authorities will change their credit policy in the near future. The rest of the year, therefore, is likely to be a period in which the balance in the money market will tend to be more and more in favor of the lender rather than the borrower.

The rise in interest rates has of course affected the mortgage market. In particular, there has been a marked tightening in the market for VA mortgages. Last fall several of the large life insurance companies, in their eagerness to build up their portfolios, opened their books wide to 30-year no-down payment VA loans. At the peak of the market some were paying par for them. Today, however, a definite retreat from these generous terms is in progress among insurance companies, savings banks and other major lenders.

Some institutions are now setting a maximum of 25 years on VA maturities. Others are insisting on 5 per cent-10 per cent down payments. Allocation schemes, in which sellers offer a package of mortgages including both 30-year and 25-year loans, are growing increasingly popular. Lenders have likewise been talking tougher price-wise. In my opinion the going quotation for fairly good VA loans has slipped to 98½, and mortgages originating in less desirable parts of the country, or covering more doubtful credit risks, are changing hands at a full point less. Recently, I purchased for 98 one half million of good VA loans having a term of 25 years and with down payments of from 5 to 10 per cent.

There is every indication that the volume of government guaranteed loans will increase at least for the next few months. This may be seen in the fact that the VA received appraisal requests for over 75,000 proposed and existing houses in January 1955, more than twice the number it received in January 1954. This increase has continued since then and it now appears that the total volume of GI loans which will be closed this year may well be in excess of 10 per cent over the amount made in 1954 when lenders invested $4.3 billion in these mortgages.

A similar situation exists for FHA. In fact, this agency has been using up its insurance authorization so fast that Congress recently was asked to approve an emergency increase of $1.5 billion in its lending authority to keep it going until June 30. Its total authorization now stands at over $22 billion.

Benner believes that "the demand for housing today which keeps the current boom running is supported by high personal incomes and is based on very liberal mortgage terms. While I see no reason for fearing a marked decline in personal incomes in the near future, there is currently taking place a gradual and moderate stiffening of mortgage terms. As always when interest rates rise, lenders are manifesting an increasing selectivity in their investments. I believe this will reduce the building boom to satisfactory proportions by the year-end."

In view of these huge increases, what position as lenders ought we to take toward these long-term, low-equity mortgages? Should we buy them willy-nilly without inspection just because some government agency insures or guarantees them? Or do we have a responsibility to pass upon them, to see that the houses are well built and that the purchasers have adequate incomes to carry their loans? It is a moot question and there is no unanimity on it among lenders.

Personally I think we do have such a responsibility. The institution I head underwrites all its mortgage loans regardless of government guarantees. I think it is our duty to do so.

Originally a supposedly temporary economic stimulant, the government-sponsored, long-term, low-equity mortgage has now become standard in real estate financing. Many mortgage lenders, vividly recalling the collapse of real estate prices and the mass foreclosures of the 1930's take a dim view of this type of mortgage. They may make these loans but do so with reluctance and genuine concern. While opinions differ over both the equity that should be required and the maturity allowed, there is rather general agreement that the no-down-payment, 30-year mortgage is too great a deviation from sound lending practice and should be discontinued.

But there is at least one improvement in the government-underwritten mortgage over the typical mortgage of the 1920's, namely amortization. The present amortizing mortgage forces a frequent periodic repayment of principal, very small at first to be sure, but increasing rapidly in the late years of the mortgage. In the 1920's mortgages called for infrequent principal payments and those called for were often honored more in the breach than in the observance. Further, although FHA and VA checks on the mortgagor's finances may not be very thorough, nevertheless they do focus attention to a greater degree than was done in the 1920's on his ability to carry his mortgage.

While much concern is manifested over the low, or absence of, equity in the typical government-backed mortgage, it should be noted that this equity was not as large in the 1920's as it seemed. A careful examination of the mortgage picture in the late 1920's would disclose that despite a high book equity in the first mortgage the use of second and even third mortgages was so wide that in many cases the owner's real equity was virtually nonexistent. I suspect that there were apartments financed with little or no equity in them even before the days of the 608s.

Even more important than the rapid rise in the total mortgage debt outstanding is the ability of the borrowers to meet the carrying charges on their loans. Here is the real heart of the present mortgage problem. Unfortunately, while there are reliable statistics on the total mortgage debt outstanding there are no official figures on its carrying costs. It seems likely, however, that the proportionate rise in the carrying charges has been somewhat less than the increase

in the total debt because of greater use of the government-backed mortgage with its longer payout period and its relative low interest rate.

While the present carrying charges in relation to income may not be too burdensome for most borrowers, we must at the same time be mindful that mortgage debt is only one of several elements in the personal debt structure. Since other forms of personal debt are also rising, it is clear that an increasingly large part of the average family income is locked in by loan repayments. Consumer and installment debt has been showing an even more rapid rise than mortgage debts.

Differences of opinion about the desirability of the government-backed mortgage often appear to arise from a conflict between economic and sociological thinking. Many persons who are sympathetic to the problems of young families, and vitally interested in the nation's progress feel that these generous terms may be doing the borrower a disservice by overstimulating housing and by encouraging the borrower to assume larger obligations than he can meet. Others, equally sincere, believe as strongly that even if these liberal terms do result in some excesses and in forcing the family to budget closely they are increasing the nation's standard of living and strengthening its economy through wider home-ownership. As between these two views, each one can make his own choice.

My own conclusions can be summarized about as follows:

» We are not over-built. The present *rate of house building,* however, is excessive. It cannot long be maintained without causing trouble, undermining real estate values and increasing foreclosures. Vacancies are increasing. Their extent, however, is not serious except in certain types of apartments and in old-fashioned large houses located in central city areas. Too much importance must not be attached to vacancies in such buildings, because, in a very real sense, they represent marginal housing, or at least housing that does not meet today's needs.

» The difference between new family formations and the number of new building units constructed should not be taken as a measure of the excess of current new building. Large numbers of dwellings become obsolete every year. Many of the so-called reconditioned apartments, made-over stores and those antiquated old houses which were occupied after the war, represent sub-marginal housing units. Many of them are now being abandoned and will probably remain vacant from now on.

» The increase in the number of households occupied by one person is another new factor in the demand for housing. It is estimated that there are 5½ million single-person households currently being maintained. They are occupied by unattached persons both old and young, widows, bachelors and spinsters. In less prosperous times they lived with relatives. Given a reasonably high level of business activity, it is my belief that the country can support approximately one million new housing units each year without becoming over-built. This calls for a reduction from present levels of about 250,000 to 300,000.

Benner believes that "lenders should all be more selective in the making of our mortgages. They should not put all this responsibility on the government agencies and indiscriminately purchase GI and FHA loans merely because the government guarantees them. I am merely sounding a note of caution. I do not want to say that I am recommending that investors stop making mortgage loans. Experience has shown that a well selected portfolio of amortized mortgage loans secured by owner-occupied dwellings is one of the best investments that a savings bank or a life insurance company can have in its portfolio."

» The building boom has been based upon cheap — perhaps too cheap — credit. While few lenders would like to see the long-term government guaranteed or insured mortgage abolished, I think it must be admitted that there have been times during the past decade when mortgage credit based on these terms has been abused. 1947-48 was such a period. I think this situation also exists today.

» The 30-year, no-down-payment, GI loan should be abolished. Requirements should currently provide for not less than a 5 per cent down payment and there should be no more than a 25-year maturity on all GI and FHA loans. I have never been in favor of the 100 per cent loan. An individual who borrows the total value of his collateral has nothing to lose when he defaults on his loan. In substance, when the government guarantees or insures a loan which represents approximately the full value of the property securing the same, the effect is to make the mortgagor a rentor paying his rent in the form of interest.

» Amortization on a 30-year loan is too slow. It is doubtful considering the construction now being used whether this rate takes care of depreciation. It certainly will not if the owner does not maintain the property in good condition. This is one of the very real dangers in the long-term, no-down-payment loan. While the current amount of mortgage debt does not necessarily post a serious hazard to business stability, the recent rate of growth of this debt must decline or trouble is ahead. Last year mortgage debt secured by one to four family dwellings increased by more than $9,000,000,000 reaching an all-time high of $75,000,000,000. It is estimated that this year another $10,000,000,000 will be added and that the total mortgage debt will be over $85,000,000,000 by 1956. An increasingly large percentage of these mortgages are either VA-guaranteed or FHA-insured so that it is safe to assume that the security back of these loans is gradually becoming smaller year by year. This is not a good trend.

» While there is some reason for thinking that the government may make the terms of its guaranteed loans more strict in the near future, I am afraid that in view of the political implications, any stiffening of the terms will be moderate to say the least. Organizations of veterans are always insisting that the terms of GI loans be made more rather than less lenient. Real estate associations are likewise prone to take a similar attitude toward the FHA. The outlook for improvements here is not good.

» Private lenders are now beginning to show signs of increasing selectivity in the making of mortgages. This is the principal reason for thinking that

(Continued page 43, column 1)

The Why and How of

BEFORE a parcel of improved real property fulfills its ultimate destiny as security for a mortgage held by a permanent investor, it is likely to have been the subject of various less-permanent financing arrangements designed to fill the gap between the initial need for mortgage money and the availability of funds from ultimate sources. There are a number of reasons for this gap. The secondary investor is rarely located in the vicinity of the property, nor is he administratively able to advance funds through local agents. Furthermore, many secondary investors, such as savings banks, are prevented from local lending in states other than their home state by state laws, which govern "doing business" by foreign corporations, and by local banking laws. Also, there is the problem of the secondary investor having funds immediately available when needed. Moreover, except in cases of large mortgages, such institutional investors are not geared to supply building funds, even where such loans will ripen into acceptable permanent mortgages.

John J. Redfield

The situation then is one where these large reservoirs of capital may be drawn upon freely only to purchase fully advanced mortgages, generally required to be fully insured by FHA or guaranteed by VA, on properties and to mortgagors approved by the ultimate lenders. This obviously takes time. If new construction is involved, the builder must be financed. The mortgage banker must be in funds to close the loan on the completed house. The security and credit of the borrower must be presented to and approved by the ultimate investor. Often, the delivery of the secondary investor's commitment must be delayed to meet the investor's own quota and money requirements. Time must elapse while the credit instrument, or report of loan, is submitted to the proper federal agency and evidence of insurance or guaranty obtained. Finally, time must be allowed for legal approval by the investor's counsel. Under favorable conditions, many of these time lapses may run simultaneously; but a period of 60 days from closing is not uncommon before the loan originator on a completed house receives payment.

The problem of time lapses is primarily, but by no means solely, that of the mortgage banker. Many of the institutional investors who maintain more or less permanent connections with their sellers feel keenly the effect of this delay upon their supply of investments. It is to the material advantage of both seller and purchaser to assure adequate funds at the inception of the loan.

New Ideas in Interim Financing

It is not only the mortgage banker who uses interim financing. Recently, there have been newspaper accounts of cases in which the mortgage banker was not concerned. Recently Prudential made arrangements with a group of New York banks headed by Irving Trust Co., whereby it is selling the banks $350 million in mortgages under a re-purchase agreement running to June 30, 1956. Interim financing has reached some sort of a climax when Prudential turns to it for funds! The explanation of course is quite simple and is based upon Prudential's long-term estimate of the mortgage market, because of which it felt that it should make arrangements for the investment of funds which will not become available immediately.

There are two devices which are used regularly by institutional investors to cut down the time gap; the advance or forward commitment procedure and the purchase prior to legal examination, pursuant to a seller's repurchase agreement.

Advance commitments permit the seller to procure the investor's early approval as an acceptable investment of the site, plans and specifications, provided a satisfactory mortgagor is found, the governmental guaranty or insurance is obtained and the legal requirements are met. Advance commitments do present some legal difficulties for an out-of-state investor not qualified to do business in the mortgage locality. Such an investor is secure from penalties and taxation incident to "doing business" in most states, provided it limits its mortgage activity to the purchase, in the state of its incorporation, of out-of-state mortgages which are "off the shelf," i.e. fully advanced at the time they are committed for. Of course, additional "doing business" problems may arise from servicing and enforcement which do not concern us here. However, if the unqualified investor, through its advance commitment, says in effect, to the local mortgage banker: "You advance the money on such-and-such a property, and we will purchase the loan from you;" and if the mortgage banker makes such advance, or commits to make it, only on the basis of the investor's advance commitment, he faces the question of whether the investor itself isn't really in effect lending money, in the state concerned, through its agent, the mortgage banker.

An impartial analysis based on these facts alone would not find that an agency existed. The mortgage banker assumes no fiduciary duty for the investor with respect to making the loan, nor is he given the power to affect the investor's legal rights. Moreover, the investor has no control over the mortgage banker in making the loan. But this is a matter in which the investor, like Caesar's wife, must avoid even appearances. Local tax departments are very willing to find that an agency does exist. We have even had opinions from the VA which has used such sweeping terms without reference to particular circumstances. Therefore, the investor must frame its commitment to assure that the local mortgage banker is an independent contractor and not

f Interim Financing

Or, to phrase it another way, what you should know about interim financing, what this vehicle is designed to do, how it functions, the various developments of it and the purpose it serves for the mortgage originator and for the ultimate investor. Few subjects in the past five years have turned up on MBA meeting programs more consistently than has interim financing. MBA members have heard all sorts of conceptions and operations explained and interpreted. Here Mr. Redfield takes a close look at the whole field and comes up with his explanations and interpretations and points out the factors which cause lenders and investors some concern. Mr. Redfield, of the prominent New York law firm of Cadwalader, Wickersham & Taft, is as well qualified as anyone in the country to speak authoritatively on interim financing because of the large investing institutions he has represented.

By JOHN J. REDFIELD

merely a conduit through which the mortgage money flows.

To permit payment for loans prior to legal examination of papers, some of our clients, in cases where the financial strength of the seller justifies it, enter into agreements to purchase immediately upon receipt of the documents—provided the seller agrees to re-purchase, should later legal examination reveal defects which would make the loan unacceptable. The aggregate amount outstanding at any time under such re-purchase agreement is, of course, limited. This has raised a legal question of whether the laws governing institutional investments permit such payments. After careful consideration, we have determined that they do, in the case of our clients, provided safeguards are observed.

The law affecting such investors generally requires that investments be first liens on improved real property. Any investment which is, in fact, not a first lien is, therefore, illegal—regardless of the degree of care taken by the investor to ascertain its validity. The duty of the investor is then to divest itself of such a mortgage with all reasonable speed. However, if the investor took due care, and the invalidity was not reasonably discoverable, I do not believe the investor would be held culpable under any legal standard for violating the investment laws. In a sense, the case is the same as that of a trustee who uses due care, but whose investment turns out unprofitable. He is not surcharged.

The question then boils down to what constitutes due care. The classic definition is "that degree of care which a prudent man with experience in the field would exercise in handling his own affairs." With this definition in mind, let us look at the re-purchase procedure. First, the investor does not waive examination of the loan papers, but merely agrees to pay out funds, pending a limited postponement of such examination. Second, the credit of the seller upon whose re-purchase agreement reliance is placed is carefully scrutinized to determine the reasonableness of such reliance. Third, the aggregate amount permitted to be outstanding on such re-purchases is limited to conform to the credit situation. Fourth, a warranty of the seller, as to the validity and priority of each lien is required, backed up by an indemnity insurance policy to cover any cases of willful misrepresentation. I think it is agreed that a prudent man of experience would be justified in relying on this procedure to assure him of a first lien pending review.

Moreover, the process of investment, which can never be considered an instantaneous matter occurring only when the money changes hands, is not complete in the contemplation of either the seller or the buyer until the examination of the loans is finished. Finally, custom of the trade, while not decisive, is a matter to be given great weight in determining what constitutes due care. It is well known that the re-purchase procedure is widely used by prudent lenders. Experience has justified the procedure; I have yet to learn of a single case where the investor using the above safeguards has suffered a loss.

Even with re-purchase agreements providing a cushion, there are times when the seller finds the delay of legal review interfering with the release of badly needed funds. Speaking from intimate experience, I can say with emphasis that the solution calls for care in the preparation, execution and assembling of the mortgage papers, and strict compliance with the FHA and VA regulations. We have estimated that, on the average, 75 per cent of the delay in the completion of legal review is caused by the necessity of securing corrections or supplemental papers. If they are submitted initially, in correct and complete form, the seller will be repaid many times over in terms of time saved and expense avoided.

In the generally understood concept of interim financing, there is a third interest—usually that of a commercial bank. These arrangements have a bewildering variety, and the range of the required interim security strength is particularly noteworthy. An unsecured line of credit is at one end of the spectrum. At the other end, probably the most secure arrangement for the interim lender is a sale to it with assignment of record, subject to re-purchase rights, based upon a firm commitment of a secondary investor, with prior examination, custody of the papers and collection of payments by the bank and transmission to the secondary investor handled by the bank.

The interim financing arrangements fall, generally, into three categories: first, pledge of mortgage papers for collateral loan; second, sale and re-purchase; and, third, participation by the interim lender. Sometimes these are used in combination as, for example, in instances where two or more commercial banks participate in collateral lending. Then, again, there are cases where a sale and re-purchase of the land itself is used by builders to place the property in the hands of an interim lender which can secure financing because of its relationship with a secondary investor.

The pledge arrangement is by far the most common form of security for interim credit. It is flexible and has certain practical advantages. It is most consistent with the concept of extending a line of credit at a uniform interest rate, regardless of the interest rates applicable to the various mortgages pledged. It is essential, in the case of FHA loans, that the pledgee be an FHA approved mortgagee; otherwise the applicable regulations provide that the insurance will terminate. When small home loans are transferred merely as collateral, either by pledge or otherwise, no notice of transfer need be sent to the FHA, which continues to recognize the pledgor as the owner of the loans for the purpose of asserting rights under the insurance contract. This is appropriate since the pledgor normally continues the servicing; but it suggests that the mere taking of an assignment from the pledgor will not put the pledgee in a position to enforce the FHA insurance without securing a notice of transfer from the pledgor, or without subsequent FHA consent.

What Courts Have Held

The rights of the pledgee and pledgor are largely undefined by statute in the various states; the courts follow the common law. Occasionally, a statute will prohibit a pledgor's waiver of his common law rights; but, generally, the parties are left free to vary these rights by pledge agreement. The general property in the pledge is held to remain in the pledgor, and the pledgee acquires a limited special interest. Courts have upheld the pledgor's right to enforce a mortgage during the pledge period, even where, in the absence of an agreement to the contrary, the pledgee has not consented to such action. Creditors of the pledgor have been permitted to reach the pledgor's interest in the pledged properties through attachment, subject to the pledgee's rights.

Interim lenders employ many contractual provisions to modify the basic pledgee's right and to increase their security interest. It is common to provide that the pledgee's basic right to sell, upon reasonable notice after a default at public sale, be extended to give the pledgee the right to sell without notice or upon specified short notice at public or private sale. A specific power to sell in the pledge agreement also counteracts the rule, in many jurisdictions, that in the absence of such agreement a pledgee of commercial paper does not have such right of sale to enforce the pledge. The pledge agreement also ordinarily gives the pledgee the right to buy in the security for its own account, thus enabling it to protect itself against a bad market and to retain any later profit realized upon a re-sale. The courts have generally held a provision, whereby the pledged property shall automatically become the property of the pledgee upon default of the pledgor, to be invalid as an attempt to create a forfeiture; and they have, likewise, held invalid a contractual attempt to relieve the

pledgee of the duty to account to the pledgor for any excess proceeds realized from a sale. Some statutes provide for a period which must elapse after notice of default and before sale, and for a right of redemption in the pledgor, during such period, which cannot be waived.

The lender, taking a pledge under an instrument which so provides, may —in most statutes—hold the pledge to secure other obligations of the pledgor. In addition, of course, the instrument normally contains the usual clauses accelerating the entire pledge debt for any material default of the pledgor; else the pledge debt is payable on demand. It is usual to require a withdrawal of pledged loans which go into default, specifying either satisfactory replacement or appropriate reduction of the pledge indebtedness. To prevent undue hardship on the pledgor, resulting from temporary mortgage defaults, there should be a reasonable period of grace during which the loans may continue pledged while the pledgor attempts to have the default cleared up.

The pledgee must be careful to guard against loss of the pledge, by parting with possession to the pledgor. In spite of decisions holding that the pledge survives delivery to the pledgor for specific limited purposes, the difficulties of proof and danger of litigation require an additional safeguard. This is usually provided by the employment of trust receipts. The trust receipt provides a limited protection and is particularly effective where less than the entire set of paper is delivered to the pledgor, so that there is no possibility that a purchaser from the pledgor could claim purchase in the usual course of business. However, where the pledgor has the entire set of mortgage documents, particularly if the credit instrument is negotiable and if the pledgor has even limited authority to sell, the trust receipt protection is tenuous indeed. This is so, even if the pledgee files the statement of trust receipt financing provided for in the Uniform Trust Receipts Act. A better plan, which I shall refer to later, solves this difficulty by placing an employee of the pledgee in the office of the pledgor.

It is often necessary that the originator be given possession. In the case of FHA insured loans, he must submit the credit instrument for endorsement of insurance. Clearance of title defects with the federal agencies often requires that the title policy, and sometimes the mortgage instrument itself, must be returned for correction. In cases where no commitment has been issued by a secondary lender, the papers must be available for inspection by prospective investors.

Clearly the pledge security is worth more to the pledgee if a firm commitment to purchase the loans has been issued by a reliable secondary investor. This is reflected in the amount of the loan available to the pledgor, as well as the pledge interest rate. Such a commitment is even more valuable if it can be enforced by the pledgee, local law permitting. For this reason, some interim lenders require an assignment to them of the commitment with the consent of the secondary investor.

The secondary investor usually provides that its commitments are not

assignable without its prior written consent. This restriction is the result of the necessary reliance placed by the investor upon the warranty of the sellers with whom it deals. It is seldom practical, in out-of-state lending, to take all of the normal title precautions which would accompany purchase of local loans by assignment. Clearance of official land records up to the moment of closing, to make sure that no adverse rights or releases have been placed of record, is not feasible, for example, for a New York investor purchasing a Texas loan, where the seller is unwilling or not in a position to record an assignment to the investor prior to receipt of payment. Therefore, in cases where the investor's confidence and the laws of its domicile justify it, the investor may accept an unrecorded assignment, coupled with the seller's warranty, against any intervening acts or events which might impair the lien. Upon approval of the papers and purchase of the loan, the assignment is returned for recording.

Other matters for which the investor may rely upon the seller's warranty include: the seller's right to assign free and clear of all other rights and claims, the absence of any defaults and the compliance with applicable VA and FHA requirements. All these are matters which the most careful investigation of the mortgage documents may fail to reveal.

While it is desirable to have a document evidencing the seller's warranty with respect to each loan, it is permissable—in cases where the financing agreement permits—for such warranties to be incorporated in a telegram, by reference to a previously executed blanket agreement. Such a procedure is useful where an immediate credit to the seller's or pledgor's account is desired upon notification to the purchaser or pledgee that the necessary papers have been placed in transit.

If the commitment is assigned to the interim lender, the nature of the commitment terms will become important to the lender; it should not become unenforceable because of matters within the pledgor's control. The commitment may be conditioned upon the pledgor's undertaking to service the loan, upon the pledgor's submitting certain warranties or upon the nature of the pledgor's own commitment to originate the loan. The pledgee seeking maximum security will require evidence of the pledgor's compliance. Finally, the most conservative pledgee will require examination of the mortgage papers for conformity to the commitment and for legal validity.

A Recent Innovation

We have recently helped to evolve a plan for one of our savings bank clients and a New York commercial bank interim lender, which supplements the credit available locally. It has worked very satisfactorily. It consists of a pledge coupled with pledgor's agreement to replace loans found unsatisfactory upon review of the documents. The pledged papers are examined by us on behalf of both the interim and final investors. When approval is given, the interim lender has complete assurance of the acceptability of the loan to the savings bank, amounting to a 100 per cent certain take-out, as long as the loans remain out of default.

The legal limits, based on a commercial bank's capitalization, sometime restrict the amount of credit available under a pledge arrangement. In the absence of participation by correspondent banks, the interim lender may resort to a purchase of loans subject to re-purchase agreement. In the case of FHA loans this, of course, means the interim lender must be an approved mortgagee. An assignment effecting such transfer may or may not be recorded. Sometimes the financial aspects of such arrangement provide for a fixed in-

terest rate for this interim loan, regardless of the varying interest payable on the mortgages themselves, which is retained by the seller. The seller usually agrees to re-purchase loans in default. This, coupled with the re-purchase right of the seller, involves some danger that such a "sale" will be held colorable since the real incidents of ownership remain in the "seller."

Participation arrangements are most frequently used in connection with large loans. The accounting problems raised by apportionment of interest make direct participation inconvenient as an interim financing device covering numerous small loans. However, participation by a number of banks in a pledge or re-purchase interim financing arrangement is not uncommon in connection with small loans. Whether the participation is in a pledge or a re-purchase arrangement may make some difference in the precautions to be observed. Under a re-purchase arrangement, the participants become part owners of the loans unless they have been specifically allocated.

FHA Section 203 insurance terminates upon the disposal "of any partial interest in an insured mortgage or group of insured mortgages," whether or not such disposal is to another approved mortgagee, except under very limited conditions specified in the regulations. Because of this, any re-purchase participation arrangement covering such mortgages must provide for specific allocation of the individual loans among the participants. We have been advised by FHA that the above language relating to disposal of FHA partial interests does not require specific allocation in the case of participation in a pledge arrangement.

National banks are prohibited from purchasing part interests in mortgage loans; and where they participate in re-purchase arrangements, allocation of entire loans is required. However, where the participation is in a collateral loan secured by pledge of mortgage instruments, specific allocation would seem to be unnecessary. "Doing business" problems again raise their ugly heads, where the participation is in a re-purchase arrangement, since participants unqualified in certain states may have to avoid acquiring even part interests in loans secured by mortgages in those states, because of servicing or enforcement difficulties. In the case of a pledge participation, however, the participants may well decide that servicing presents no "doing business" question because of their indirect interest in the mortgage.

A limiting factor in interim financing of conventional loans is the legal restriction on national banks, under Section 24 of the federal reserve act limiting mortgage loans to 10 years.

This, of course, does not apply to FHA's or VA's. A take-out is thus highly desirable in case it is necessary to enforce the security. An originator who does not have an outstanding commitment can often secure standby, take-out commitments at a substantial discount, intended for actual use only where more favorable take-outs cannot be obtained. In lieu of such discount, a high commitment fee may be involved.

So far, in this discussion, we have regarded the borrower of the interim funds as the party having business relations with the permanent investor. An interesting variation, however, is one in which the supplier of interim funds is the one with the secondary investor connection. In these cases, the supply of funds to originators may be advantageously tied in with an agreement giving the interim lender a first refusal of purchase of the loans at a specified rate which may or may not be the temporary financing rate. The effect of such an arrangement is to give the supplier of interim credit a potential source of new loans. Similar agreements on construction loans made directly by originators to builders may provide that the builder will finance the permanent loan through the originator, but these are less certain of success because the purchaser of the property may want to make his own financing arrangements. There is some question in my mind of the enforceability of such agreements, if they were ever put to the legal test —at least in the absence of a liquidated damage clause, because of the basic difficulty of proving damages for breach of a contract to make a loan. However, the practical protection is strong in this field, where reputation and credit play such an important part. An interim lender having secondary investor connections can also advantageously offer standby protection to its originators by including an undertaking to purchase the loans permanently. Such a service might well justify a higher interim financing interest rate.

Servicing of loans while under interim financing is usually, but not always, left to the interim borrower. If the interim lender services, and it is necessary to make a claim to VA or FHA, its status as holder must be established in accordance with regulations. In the case of a pledgee, this would require recorded assignment plus notice to FHA in the case of FHA loans. Usually the commercial bank is unwilling to undertake servicing and setting up the necessary escrow fund accounts. If the originator expects to be the servicer for the ultimate investor, there is even more reason to allow the originator to continue servicing in exchange for a percentage fee or a reduced interest rate on the interim loan.

Remittances of collections to the interim lender may take the form of direct remittance of the whole amortization and interest payment minus servicing fee or, if there is a blanket interest rate on the interim loan independent of the interest on the individual mortgages, remittance of the amortization only. A pledgee may require separate collateral notes for each mortgage providing for remittance to correspond with the mortgage payments minus servicing fees. As additional collateral, the pledgor is sometimes required to deposit all collections in a trust fund or with a depository, or both, with release of the interest portions of the deposits permitted upon due payment of collateral note installments.

Another Good System

A remarkably efficient system of procedure under a pledge arrangement was described by William E. Howard of the Mellon National Bank and Trust Company at the MBA Chicago Conference in February last year. Briefly, it consists of the interim lender appointing one of the employees of the pledgor as its agent, paying his salary and giving him custody of the pledged instruments in the office of the pledgor, together with responsibility over collection of collateral account installments and transmission of papers to the ultimate investor. The simplicity, economy and safety of this plan recommend it for operations of substantial size.

Delivery of papers to the secondary investor is normally handled through the interim lender, but under some arrangements a depository is designated. Authorization for payment to be made to the interim lender, or to it and the originator, can be accomplished by individual letters accompanying the papers or by blanket agreement with the secondary investor.

To permit assignment direct from the originator to the permanent investor, some interim lenders have blanket agreements with such investors, under which the investor undertakes to hold the loan as nominee for the interim lender until payment therefor is made, and to reassign to the interim lender in the event of rejection. To avoid contingent liability resulting from an endorsement of a rejected note back to such interim lender, some investors have used a form of endorsement which purports to negative any warranties implied by law resulting from endorsement of a negotiable note. In addition, they have, in their agreements with the interim lenders, required a covenant by them not to enforce such warranties and to render them safe from any attempts of subsequent holders to do so. Consent of the originator to these agreements is also required by the investor.

In the event of default of mortgages securing interim financing, it is usual to require that the portion of the interim debt which they secure

be paid; and that they be withdrawn as security. In the case of simple pledges this presents no substantial problem; but where a sale and re-purchase is involved, the acquisition of a defaulted loan may violate investment laws applicable to the re-purchaser, especially a bank. For instance, there are New York decisions which prohibit such acquisition by banks in that state; and there are a number of cases casting doubt on the legality of national banks acting in that manner. Perhaps a safer provision would be an agreement by the interim borrower to replace the mortgage by another not in default. While such replacement might be criticized as being a re-purchase plus a new sale, it would have the advantage of emphasizing the security aspect of the over-all plan, rather than an individual sale of a defaulted loan. None of the cases I have referred to, however, have considered the re-purchase question as applied to interim loan arrangements. Other attempted solutions have been used, such as giving the interim lender the option to require re-purchase on notice, without mention of default, or else requiring re-purchase during the period of technical default. These, it seems to me, must stand or fall with the validity or invalidity of re-purchase upon default, of which they are but disguises. In view of this difficulty, the pledge arrangement appears to have a definite advantage over sale and re-purchase.

The question of assignments, and whether or not to record them, is a vexing one on which secondary lenders have some definite views. If they are put on notice of a prior unrecorded assignment, which may have been effectively delivered to the assignee, their protection against adverse interests arising therefrom, which the recording acts would otherwise afford, is lost. They will therefore ordinarily require the recording of such assignment and the execution and recordation of additional assignments necessary to put the interest back in their chain of title. This can be a serious source of delay and expense.

It lies within the power of the parties to an interim financing arrangement, by way of pledge, to make it crystal clear that such assignments are not delivered unconditionally by the pledgor to the pledgee; but only in the event of default under the pledge agreement. I believe it would be helpful to insert some such provision in every pledge agreement in which there is no legal inhibition to prevent it.

However, there is a further complication which has troubled some commercial banks lending interim money. This is the legal requirement in some states that loans secured by real property must be covered by instruments of record in the bank's name. I believe this does not apply to a pledge of mortgage papers, even where an assignment is taken as additional means of enforcement. Sufficient doubt, however, exists to persuade some lenders to require recordation.

In the case of a sale and re-purchase arrangement, conditional delivery of the assignment is inconsistent with the purported transfer of title to loan. Earlier I mentioned some plans where the incidents of ownership appeared to remain in the originator; but the language of such agreements, being in terms of absolute transfer, casts such doubt on any attempted conditional delivery that it may be said that all such assignments should be put on record to avoid question by an ultimate investor which has notice thereof. The next best thing is to see that no such notice is given.

In this connection, the interim financing plan which our firm helped arrange for a savings bank client and a commercial bank has provided a satisfactory solution. It is a pledge arrangement under which we receive the papers on behalf of both banks. The originator sends two assignments, one to the interim lender and one to the savings bank. Besides the specific language of the pledge agreement, providing that delivery of the assignment to the commercial bank is conditional only, we control the acceptance of papers for both banks. Thus we are in a position to advise, authoritatively, the savings bank that the acceptance of the interim assignment accorded with the terms of the agreement.

One other cause of some concern to secondary investors has developed from a number of interim financing arrangements. This is the possible effect on the enforceability of mortgage loans, resulting from an interest therein being acquired or held by an unqualified foreign corporation whose acquisition or holding of such interest might be held to be "doing business."

A number of states have stringent laws which render unenforceable, or void, contracts made by a foreign corporation while unlawfully doing business therein. While there are many variations and exceptions, the assignee of such mortgage contracts is often without assurance that they are enforceable in its hands, regardless of whether it has qualified or avoided "doing business." Thus, it is of utmost importance, in such jurisdictions, to be sure the loans are untainted by such defect. Now, suppose a local bank grants interim financing based on the security of such loans, and suppose that by a participation arrangement with an unqualified out-of-state bank it is in a position to advance some of the out-of-state bank's money as agent within the

(Continued page 36, column 2)

Voice of the Home Office

Advice for Lenders on Prepayments

Prepayment penalties are accepted without question for bond issues, then why isn't this same yardstick just as sound in the mortgage business? And do correspondents take the time to explain why this prepayment is necessary, asks this official.

PREPAYMENT privileges which are too liberal on residential and business mortgage loans have always been a source of concern to life companies. Some correspondents fail to understand the insurance company problem. Equally important is the correspondent's short-sightedness, which adversely affects his own overhead and profits. Usually, what is good for one is good for the other.

Nine years is considered a fair average life for a mortgage portfolio. Thus, it is obvious that a good number of loans made in a group with 15 and 20 year amortization will be paid in full during the early years after they are put on the books. Considering the premiums paid for conventional loans and other costs of origination, it is essential that there be some protection through a restricted prepayment provision to assure continuity of the investment or reimbursement of expenses if the loan is lost.

The obligations of a life company are of a long-term nature. Its investments can well afford to be similarly scheduled. A heavy turnover of long-term mortgages or preponderance of shorter maturity mortgages can well prove costly. Commercial banks and some other types of lending institutions do not fall in this category, because their obligations turn over more rapidly. Moreover, the life company operates in many states at some distance from its home office. Its mortgage investments are acquired at far greater expense than is the case with local institutions.

The borrower is interested in prepaying his loan for one of several reasons. The property may be for sale, he may wish to liquidate the debt from his savings, refinance the loan for contemplated improvements or secure additional funds for investment purposes. The borrower also may be interested in refinancing if money is plentiful and there is at the time competition for loans, so that the loan can be secured on more favorable terms than on the existing mortgage. For any one of these reasons, where new financing is required, the investor should have the first opportunity to consider this new financing. Most lenders, especially on residential properties, will accept full payment if the new financing required can be secured elsewhere on terms that they are unwilling to consider. In these cases, a reasonable reinvestment fee can be collected to recover the original expenses.

If a borrower is refinancing just to secure better terms, such as a lower interest rate, then it is proper for the lender to be in a position to decline accepting full payment and insist that the borrower continue with the contract. Why should the borrower be permitted to pay the loan in full in order to secure a lower interest rate: whereas, if interest rates have increased, the investor must continue with the contract even though, at that moment, the funds could be reinvested on better terms? If the borrower is liquidating the debt from his accumulated savings, most investors are willing to accept full payment with the prepayment penalty determined by the length of time the investment has been on the books.

Most correspondent offices must screen a good many applications for one acceptable loan. Once a loan has been approved on a given piece of property, it is much less costly to refinance this mortgage and retain the servicing than it is to place a new loan on the books.

It is common and accepted practice in bond circles to restrict the call of bond issues during the early years and then start the prepayment penalty at the interest rate level, reducing it by a fraction of a percentage each ensuing year. If the reasons for and application of this yardstick are sound when applied to corporate bond issues, why isn't it just as sound in terms of a mortgage loan? Too many speculative-type borrowers on business mortgages want full loans for the longest possible term but with the option in them to pay off with little or no penalty at any time of their choosing. The odds are all against the investor.

If the correspondent, after analyzing the applicant's financial position, will carefully explain the reasons for requiring a restricted prepayment provision, it usually is not too difficult to obtain. This is said with some assurance, because in observing the operation of a number of correspondents, it is found that the prepayment provision submitted by a particular group will always contain a limited privilege; and, yet, with other correspondents, the provision submitted usually is the minimum requirement that is acceptable to the life insurance company.

Loan Officers Paid to Lend Not Reject

With correspondents, it's often not the minor error here or the forgotten fact there, but a case of failing to be alert for little time-savers, such as a proper arrangement of documents to be reviewed in the proper sequence, says this life company official.

THE loan correspondent is an important part of the investment department, even though he is not on the home office staff. He should always place himself in the mortgage officer's position and ask "What would I want to know about this loan?" Certainly he would want to know the type of construction, when built, number of rooms, garage, if any, the amount of annual taxes and hazard insurance premiums, or an estimate if new construction. Taxes and insurance premiums are a part of the monthly obligation and included in the ratio of monthly payments to monthly income. The amount, term and rate are not the only important features.

He would want an adequate credit report. Many of them are quite superficial and without much history of trade experiences and paying habits. Some are limited to the general remarks of "good reputation, no family trouble," etc. The reports should cover a sufficient period of time.

He would like to be sure, not only that the application was complete, but had been screened carefully and received in ample time to set up for finance committee consideration. He might feel that every Friday the loan correspondent bundled up all the loans, and they all arrived every Monday, a peak load day usually without the addition of loan submissions. It would probably annoy him some to find re-submissions of previously rejected cases, where the reasons for rejection remained, but the accompanying letter from the correspondent restated that he still thought it was a good loan and would work out all right. It might even exasperate him to find that it was the same loan committed on last week--but this time offered in an increased amount. He might even wish that the correspondent would make life a little easier and less complicated. He might even make the loan.

When closing papers are submitted, there should also be a covering letter listing all enclosures, checked to see that papers are *complete.* As a suggestion, the order or arrangement of documents could save time and might be something like this: note; guarantee certificate, if any; mortgage; assignment; waiver letters; title policy; insurance certificate or policy; amortization schedule and notices of transfer; adding or omitting for conventional loans. If these papers were stapled once, at the top, there would be less likelihood of separation in handling.

Now that the loan is closed and servicing fees begin, the mortgage loan accounting section goes to work. Too often they find incorrect home office loan numbers, wrong due dates, not the right amortization schedule for the particular loan, or the report received the first day of the succeeding month, so that they had just listed and reported all of these loans delinquent the day before.

A proper arrangement of the report and listings facilitates posting, balancing out and computing servicing fees.

Delinquent cases should be followed closely; but, further, the mortgage loan officer would like to know why the loan is delinquent, and what arrangement has been or may be reached to bring it up to date again. If papers have been sent for foreclosure, or foreclosure instructions issued, he would like an acknowledgement, and within a couple of weeks some report of what has happened. Most law departments would also like prompt notice when a foreclosure petition is filed. Once foreclosure starts every effort should be made to complete it as speedily as possible. Usually it takes a long time; but let's not wash our hands of the loan, turn it over to our attorneys and forget it.

Believe me when I say that the home office is interested in the loan correspondent, his well being, peace of mind and financial success. A mortgage loan officer is being paid to *make* loans, not to delay or reject them. Perhaps loan correspondents don't think so, and sometimes we can't blame them. Remember, our life insurance agents sometimes think the underwriting department is hired largely to reject their cases. However, our life insurance business lives by the work and success of its agents, and its investment departments grow, succeed or are inadequate depending largely on the energy, vision and cooperation of its mortgage loan representatives.

As the months go by, investors and originators are digging deeper and deeper into their accumulated experience to express opinions by which closer home office-correspondents cooperation can be created. Do you have an idea that has not been set forth in these Voices pages? It is solicited for presentation here.

Voice of the Correspondent

The Case for the 100% VA Mortgage

It's one of five "observations" this correspondent makes in a detailed analysis of how he thinks investor-correspondent relations can be improved. Others: In-and-out investor tactics; old-fashioned underwriting standards; arbitrary servicing demands.

AS A PREFACE to these comments: correspondents generally realize that the investor, quite properly, must base his actions on what he considers best for him as an investor. The investor's relationship with correspondents, pleasant though it may be, is a business one; and if it is "good business" for him to do something that helps us, he should do it. If it is "poor business," he should not. We ask for no favors—as favors; but if a "favor" might be considered "good business" over the long pull, we're in favor of it—and highly recommend it.

On that basis, I have listed five "observations" frequently made by correspondents that might be considered complaints but which appear to have some merit. The comments made in connection with each are offered as suggestions for good business practices, not criticism. (I hasten to add that any similarity that might be inferred from acts described herein to any acts of my own investors, living or dead, are unintentional and purely coincidental. All complaints were obtained from my competitors—our own investors are wonderful, simply wonderful—"when they are investing.")

>> OBSERVATION No. 1: *Investors in and out of the market, can't rely upon them as an outlet.*

Prior commitment prices are often too low to meet local competition and by the time new business can be developed without a prior commitment (from six months to a year), the investor has changed his pattern and prices, or gone out of the market all together.

>> COMMENTS: Obviously, an investor is of little value to a correspondent if he is in the market only when the demand for mortgages is good, or if his prices are not reasonably competitive most of the time. When the demand for mortgages is good, investors need reliable sources of mortgages from strong servicers; when the demand for mortgage money is good, strong servicers need reliable outlets for loans at reasonable prices. Let's get together. Will it not be good business for both parties to keep the *long-range* viewpoint — develop and maintain a strong, permanent and confidential relationship with each other based on mutual interests, thus producing a steady reliable source of loans at reasonable prices for the investor and a steady reliable outlet for loans at reasonable prices for the correspondent, through both tight and easy money markets?

The more the investor can do for the correspondent, the more valuable he will be to him, the more he can expect from him, and the more he can demand from him. It might prove to be good business to make yourself *really* valuable to him.

It takes months and years to develop some builders and realtors as customers. We can lose them overnight by not being able to handle their business at reasonably competitive prices. Because of this, an investor who keeps the supply of mortgage money open for his correspondent at reasonably competitive prices, is many times more valuable to the correspondent than one who is in and out of the market — whether he is out altogether, or out for all practical purposes because of excessive limitations and restrictions on qualifying the borrower and the property, or to prices substantially below competitive rates.

As to investors not offering prior commitments to their correspondents: Prior commitments are a necessity to many builders in order to qualify for a construction loan. Normally, the one making the prior commitment obtains the permanent loan. The correspondent is not often in a position to give such a commitment. The in-

vestor is and many do. Certainly they are in a much better position to assume the risk of a change in the mortgage market than is their correspondent. This is just another service, not required, but very valuable to a correspondent, and from a long-range viewpoint might be "good business" for the investor.

» OBSERVATION No. 2: *Too many investors are unreasonable and hidebound in their underwriting standards . . . expect all loans to be "gilt-edged."* "How do they expect us to get that type of business without taking the average quality loans?" "What do they expect us to do with the average quality loans?"

» COMMENTS: A correspondent cannot live on "gilt-edged" loans. He cannot expect a builder to give him the better loans if he turns down very many borderline cases which other lenders will make. Even when sales are good, the builder doesn't want to lose one by reason of dealing with you if he could make it through another lender. An investor should not buy a loan he considers too risky—but a few clouds in the sky don't always indicate rain.

Investors whose judgment I value highly have said there is no sharp line separating safe mortgage loans from unsafe loans, either with respect to the property or the borrower. A slow item or two in a credit report might properly disqualify a loan, or mean absolutely nothing. It will depend entirely upon the circumstances involved. In some cases, it may merely provide the originator with an opportunity to have a more definite understanding with the applicant regarding his obligations on the loan. Probably few individuals (wives, especially) doing a general credit "business" have *not* been slow on some accounts due to oversight, if nothing else. Yet they might prove to be well above average as mortgage loan borrowers for a good servicer. And, in any event, if they are quite capable of making their payments and you have a good mortgage security with a good servicer, there is very little risk in the loan. Also, you can perhaps buy the loan at a slight discount which will increase your net yield. One may say, why buy trouble? One good reason for taking a little chance on a little trouble might be to help your correspondent keep a good builder happy, and thus get more good loans when you might want them.

As to being hidebound, having arbitrary standards: It does facilitate assembly-line operations to have definite requirements on loans with respect to size of the house, number of bedrooms and baths, age of the house, age of the borrower, number of children, length of time in present job, etc. Keep in mind, however, that every limitation or restriction you place on your loans reduces by that much the elbow room you give your correspondent, and thus reduces your value to him. Obviously, you will want to place some limitations and requirements on the borrower and on the property, but please try to be realistic and reasonable. None of these items will guarantee a good loan, nor will the lack of them make a good loan bad.

» OBSERVATION No. 3: *Some investors are quite arbitrary and technical in their servicing requirements.* "Work at us instead of with us." "Make no attempt to help us or look at a problem from both sides."

» COMMENTS: This may be more real than apparent since, in most cases, it touches only the men and women who actually do the servicing work and do not feel in a position to complain. Perhaps more can be done than many investors realize to reduce the costs of servicing to the correspondent and to the investor by looking at the whole operation from an objective viewpoint and each doing what he can to assist the other in improving the technical part of servicing.

» OBSERVATION No. 4: *A few large investors (competitors' investors, of course) blow into the market like a bat out of Texas with price and terms two points above the going price.* Contact all builders. Get their sack filled. Blow back out again. Big deal. Result: All builders are unhappy if they don't get the same price from their regular sources. All other mortgagees are unhappy (to put it mildly) because of the pinch. Everyone unhappy except the recipients of these investors' benevolence. And the big investors lost thousands of dollars for their companies by paying more than necessary to get the business, because they did not check the local market and were unable or unwilling to plan their mortgage operations on a more stable and long-term basis.

» COMMENTS: There probably isn't a thing that can be done about this. Apparently, some investment committees decide at a particular meeting to put a certain amount of money into mortgages; and when they decide to put it in, they put it in. No looking over the situation for them! But it certainly throws a monkey wrench into the mortgage picture in any area if the going rate on a 25-year, no-down-payment loan happens to be 98 and some joker moves in offering a 30-year, no-down-payment loans at par, just in order to get his requirements met right now period. And everyone except the few builders concerned lose by it, including the big joker.

» OBSERVATION No. 5: *Far too many investors appear to be unrealistic in requiring a down payment on*

all VA loans, regardless of the quality of the borrower and the property.

» **COMMENTS:** A loan secured by a government cash guaranty *plus* the home should be far more desirable, safer and command a lower yield than a loan secured only by the property. It sounds like an obvious observation, doesn't it? Yet, many lenders apparently do not think so. They will lend Joe Doakes $9000 on a $13,500 house (three bedrooms, bath and a half, brick veneer, of course), secured only by a mortgage on Joe's home; but they will not lend him $6000 secured by the same home plus a $7500 loan secured by a government cash guaranty (and the home). Total $13,500. And this in spite of the fact that the loan secured by the government cash guaranty (and property) carries the same interest rate as the $9000 loan secured only by the property. As a matter of fact, the loan secured by the government cash guaranty will produce a higher yield than the loan secured only by the property, when the 100 per cent GI loan can be bought at a discount.

What is the explanation? I suggest this answer: Many investors are looking at the hole instead of the doughnut. They are looking at features in the 100 per cent loan which, without the government guaranty, would obviously make it unattractive as an investment. They overlook the fact that the government guaranty more than makes up the difference—much more. Few correspondents contend that any VA loan is absolutely riskless, but it is not at all difficult to prove that it is many times easier to make 100 per cent VA loans that are, for all practical purposes, riskless than it is to make riskless, trouble-free conventional loans.

Quite a few investors today will make a VA loan with a 5 per cent or a 10 per cent down payment, but will not make full VA loans (with closing costs paid in cash). It might *appear* obvious that other things being equal, the loan with the 5 per cent or 10 per cent down payment is better than the 100 per cent loan, but I suggest that if the 100 per cent VA loan is safe from a security standpoint—taking into consideration the security of the property *and* the 60 per cent government cash guaranty—why arbitrarily require a 5 per cent or 10 per cent down payment? If a two-by-ten floor joist will carry the load with sufficient margin of safety, a good builder will not spend extra money for a two-by-twelve. Many investors spend good money for so-called "extra safety" that is not needed by refusing to buy 100 per cent VA loans that would give them a higher yield than they are getting from down payment loans of any type.

If a $12,000 loan on a $12,000 house is safe (by reason of the government guaranty) isn't it better loan for the investor than a $11,000 loan on the same property to the same borrower? Consider these points:

» It costs absolutely nothing to service the additional $1000 loan.

» The $12,000 loan is less likely to be refinanced in case of sale.

» The $12,000 loan can quite likely be purchased at a discount, thus producing a higher yield than the $11,000 loan.

While it is not contended that every 100 per cent VA loan is riskless and trouble-free, it is suggested that the government cash guaranteed portion of a VA loan is the same as any other government promise to pay, so can be considered riskless to that extent for all practical purposes; and that it would be very difficult to imagine any economic condition that would cause serious trouble to 100 per cent VA loans generally that would not hit so-called gilt-edged conventional loans, stocks, bonds and real estate much harder.

SUMMARY

» It is quite desirable from every standpoint for an investor and a correspondent to know each other "like a book." This takes time, work and money over a long period of time; and it is unlikely to develop, or continue if it does develop, unless each offers something substantial to the other: a steady flow of loans and good servicing for the investor and a stable, reasonably-broad outlet for loans at reasonable prices for the correspondent through the ups and downs of the mortgage market.

» The reason the yield on a mortgage portfolio is higher than on government bonds, after due allowance is made for differences in liquidity and cost of handling, is that there might possibly be some element of risk involved. Mortgages are not presumed to be riskless investments.

» One hundred per cent VA loans are not poor loans *per se*. As a matter of fact, many of them offer a combination of the greatest safety and the highest yield available in the mortgage market today. Do not refuse to consider them just because you might be "against 100 per cent loans." Consider them on their merits and take advantage of the opportunity to be of greater value to your correspondent—while, at the same time, increasing the net yield of your mortgage portfolio.

» **WEAK SPOT:** Last year FHA insured 283 mortgages, totaling $234 million, on multi-family housing projects with 28,257 living units. Included were 145 rental projects with 22,037 units, and 138 cooperative projects with 6,220 units. Volume of rental housing financed under FHA has decreased each year since 1950, when 154,000 units were insured. Total in 1951 was 66,000; in 1952, 30,000; and in 1953, 23,000.

FARM LOANS

A monthly department of MBA's Farm Loan Committee, A. L. Bartlett, Jr., St. Joseph Missouri, chairman; Elliot G. Waples, Cedar Rapids; A. A. Abernathy, Dallas; Carl M. Adams, Des Moines; Karl M. Blanchard, Memphis; Frederick P. Champ, Logan, Utah; Ewart W. Goodwin, San Diego; R. L. Harrison, Oswego, Kansas; L. B. Horton, San Angelo, Texas; Roy C. Johnson, Newkirk, Oklahoma; Paul Mann, Wichita, Kansas; Henry A. Schnell, Fargo, North Dakota; R. T. Tucker, Orlando; Fancher Upshaw, Jr., Amarillo, Texas; E. W. Van Tuyn, Spokane; and J. D. Williamson, Tallahassee.

Drop in Farm Population Mirrors More Production by Fewer People

A LOOK behind the figures for the long-term migration trend from the farm to the city and the over-all population shifts throughout the United States over the last few decades provides a picture of the change and progress brought about by the growth of the economy and the widespread expansion of opportunity.

Does it mean, for instance, that the field for farm loan financing has witnessed a comparable drop, that the future market has shrunk in proportion to the drop in farm population? No such conclusion can be drawn. What has happened is that Agricultural America has modernized its machine, effected a great degree of efficiency and now can do a bigger production job with considerably fewer people.

The most dramatic of these changes has occurred in the South. Up to a generation ago the South was still predominantly agricultural, and Cotton was still King. It was the only broad region of the country where the number of persons then living on farms made up more than half the population. U. S. Department of Agriculture figures show that in 1920 a total of 51.3 per cent of the population in the South lived on farms as compared with less than 30 per cent in the North Central States and under 25 per cent in the West.

The rapid growth of industrialization below the Mason and Dixon Line has brought a fundamental change. The number of persons living on farms in the South has declined by more than 6 million since the beginning of the Twenties and the total now represents little more than a fifth of the entire population of that region. The proportion a year ago was exactly 22.2 per cent. Combined with the higher earnings provided by jobs in business and industry, and diversification and mechanization of farm output, this population shift figures importantly in the strides made by average income levels in the South in recent years.

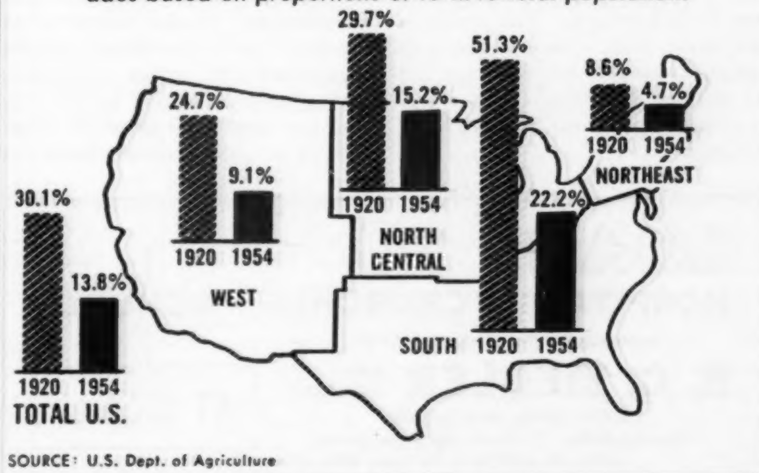
Big population shifts have also occurred in other parts of the country. The number of persons living on farms in the nation's bread-basket comprised by the North Central States declined by more than 3 million between 1920 and 1954. The proportion of farm to total population of that region showed an even greater rate of decline, from 29.7 per cent in 1920 to 15.2 per cent in 1954.

The number of persons living on farms in the West declined by only around 225,000 between 1920 and 1954. However, due to the great expansion of the over-all population in the West in the period, particularly on the Pacific Coast, the farm population last year represented only 9.1 per cent of the West's total population as against 24.7 per cent in 1920. The farm population in the Northeast, which has been in a downtrend since the last century, declined by 600,000 between 1920 and 1954, and its proportion of the total population fell from 8.6 per cent to 4.7 per cent between those years.

Over-all, the total farm population in the United States declined by more than 10 million in the 1920-54 period. Whereas the number of persons living on farms represented 30.1 per cent of the total U. S. population in 1920, the proportion was down to 13.8 per

THE DROP IN FARM POPULATION

Regional changes over the last three and one-half decades based on proportions of farm to total population.



SOURCE: U.S. Dept. of Agriculture

cent a year ago, the lowest ratio on record.

As a matter of fact, even a substantial proportion of those classified as living on farms now earn their livelihood in outside pursuits. The 1954 figures show that nearly 3 million farm residents, or a fifth of the entire farm population of working age, were employed in non-agricultural occupations.

One of the significant results of the decline in the farm population shows up in the income figures translated to a per capita basis. Though the number of active farmers is down to the lowest level in decades, production in general is at near-record levels. Much of the growth of farm income between the Twenties and now may reflect the big rise in prices over the last decade and a half, but a good deal also represents increased efficiency and more production of livestock, with an assist from government support operations.

For the three decades from 1924 to 1954, total cash receipts from farming (excluding government payments and off-the-farm income) rose from $10.2 billions to $30 billions, an increase of practically 200 per cent. Adjusted for the change in the farm population figures in the period, however, the per capita cash income from farming was more than four times as high last year as it was in 1924, rising from only $328 in 1924 to $1,368 last year.

The difference between the rise in total and per capita income is even more marked in the South, where aggregate cash receipts from farming were up 169 per cent between 1924 and 1954 but on a per capita basis were up 313 per cent. The margin is least in the West, where over-all cash receipts from farming were up 276 per cent in the 1924-54 period and on a per capita basis were 315 per cent higher.

WHAT WE OWE

(Continued from page 14)

equipment. Short-term debts dipped $6 billion during the year to $93 billion with the cutting of inventories and the decline in federal income tax liability outstanding.

>> State and local government borrowing raised the net debt of these units by almost $5 billion, about one-sixth, to a total of more than $33 billion. State governments borrowed most of their money for highways and other construction. Local government borrowed mainly to finance new schools and new sewer and water facilities.

>> Stock market credit extended by banks and brokers rose more than $2 billion during the year. Total financed debt, including security and life insurance policy loans, totaled nearly $10.5 billion at the end of last year, compared with $8 billion a year earlier.

Consumer credit increased by only $600 million to $30.1 billion last year after having expanded $3.5 billion in 1953. Farm debt also registered only a small rise, $800 million, during the year to $17.6 billion outstanding at year-end.

INTERIM FINANCING

(Continued from page 29)

state. The loans, so affected, hold some additional risk for the ultimate investor.

In some 40 states, Hawaii and Puerto Rico, with which our firm has been concerned, we have not discovered any cases which hold that the situation just described renders a loan unenforceable in the hands of an investor, which has either qualified or avoided any actions constituting "doing business" therein, provided the loan was good at its inception. However, if we add the supposition that the loan was originated in reliance on such illegal interim financing, we may have the makings of an unenforceable loan. Like so many other situations, when the courts have not told them the exact answer, the investors try to avoid raising the question.

Thus, the form of interim financing is capable of indefinite variation to suit the varying needs of originators, interim lenders and secondary investors. I have touched on only a few of the variations, but I hope that I have suggested to you some of the arrangements which have been developed, and some of the pitfalls and ways to avoid them, as viewed by the ultimate investor.

>> **RENTAL LOANS:** Typical FHA multi-family mortgage of $8,041 per unit in 1954 was higher than ever before, but the ratio of loan to replacement cost decreased from 82.4 per cent in 1953 to 74.7 per cent in 1954. Proportion of rental projects in elevator buildings increased from 22.1 per cent in 1953 to 27.6 per cent in 1954, and the proportion in single-family structures also declined.

Had You Noticed?

The Stability of the Dollar

Compared with the pre-1939 dollar, there is still a big bite out of it but, after years of gradual depreciation, it is wearing a cloak of stability that is pleasant to see and augers well for the future.

AFTER more than a decade of erosion, the dollar's buying power has achieved a stability that is satisfying to see but surprising to most people because they aren't aware of just what has happened.

The government's Cost of Living Index has varied only around 2 per cent between its high and low points for more than three years—from the end of 1951 to date. This is an unusually narrow range for so long a period of time. Price records of the past going back to the early part of the last century, produce few parallels of such stability in the consumer's dollar for any comparable period.

Stability does not mean rigidity. Individual components of the Index have shown independent movements since 1952, as they have before and undoubtedly always will. Some like housing and medical care have continued to go up. However, others like food and apparel have declined enough so that the net effect of the 1952-55 changes in living costs on the consumer pocketbook and family budget has been unusually small.

The significance of this development cannot be overestimated in view of the importance of sound money to the nation and its welfare.

The current trend of the dollar also strengthens the hope that the fourth inflationary period in the 165-year history of the Republic may have run its course. And it should encourage the people to take whatever other steps are necessary, such as ending the chronic deficits in the federal budget, so that the dollar will have the same stable buying power in the foreseeable future as it has today.

It is an opportunity, and a challenge.

The American people have shown an extraordinary proficiency over the years in solving the problems of technology and production, and in unlocking the secrets of nature. These have been translated into improving our material well-being and in providing the population with more and more of the better things of life. Our success in this respect has been phenomenal, but it would have been even more so had the purchasing power of the dollar been maintained on a basis of stability comparable with the last three years.

As it is, the dollar's buying power today is down to around 52c compared with what it was in 1939 as the result of the inflation in the intervening period. The dollar currently will buy less than a third of what it would at the turn of the century. The fact that the earning power of the average person, and his real living standards, have increased even more than living costs in the period does tend to conceal where the impact of inflation has been.

Barring another war or a boom-bust, around which the inflations and deflations of the past have revolved, the American people now have two powerful forces working on the side of sound money and the stable purchasing power of the dollar. One is mass thrift. The other is our unsurpassed capacity and ability to produce.

The U. S. today is a nation of savers. There are 93 million owners of life insurance, or well over half the entire population. Approximately 70 million persons have savings accounts, and there are an estimated 16 million members or investors in savings and loan associations. These figures overlap in many cases, but they show the extent that thrift has permeated the nation and point up the importance of a stable price structure. Total accumulated savings of individuals in life insurance and other long-term thrift mediums now add up to around $220 billion, the equivalent of more than $5,000 for every family in the land.

With $213 billion invested in new plant and equipment between 1945 and 1954 and expected to grow by another $27 billion this year, the nation's production mechanism is at its peak in potential volume and efficiency. A large part of the funds for this expansion came from the savings of the people.

Furthermore, the skill and productivity of the working population have never been higher than right now. Annual production per employed member of the labor force in terms of gross national product in constant (1947) dollars figures out at approximately $4,600 for 1954. The comparable figure for 1940 was $3,575. It was only $3,125 in 1929.

Report to the Members

REPORT OF SPRING BOARD MEETING IN NEW YORK

It was reported to the Board that each resolution and requirement made by the Board at its meeting in February, 1955, had been fulfilled. The following resolutions were discussed and approved:

1. That the MBA recommendations submitted to Administrator Cole be endorsed and that a special committee be continued substantially as now constituted, with General Counsel Neel handling the principal contact and administrative work, but that the committee be authorized to use the services of economist Miles Colean when necessary to advance effectively MBA's position.

2. That a total expenditure of $5,000 to defray the cost of studying the problem of financing minority housing be approved.

3. That a fee of $10 per annum be approved for each additional complete set of MBA publications to be sent to the regular mailing address of the member firm.

4. That the office of Controller of the Association be created, responsible directly to the Board of Governors, for preparing such financial reports as the Board might from time to time require.

5. The report of the Nominating Committee was approved. The list of those nominees was made known to you in the May issue of *The Mortgage Banker*.

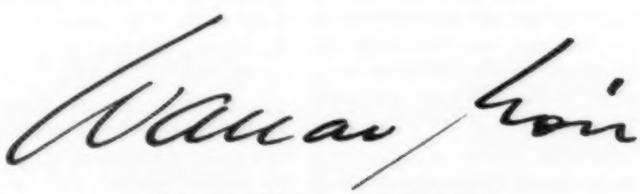
6. W. James Metz was elected Controller. Frank J. McCabe, Jr., was appointed Office Manager and his responsibilities increased. Salary increases for certain members of the Headquarters Staff were approved.

7. Suspension of approved FHA and VA lenders was to be referred to General Counsel Neel.
Nine committee reports were heard.

THE 1955 HOUSING BILL

As this issue goes to press, the Senate has passed a housing bill that defies the imagination. It is filled with new types of lending, including loans for trailer parks, relaxed requirements, increased grants and subsidies and a provision for a greatly expanded public housing program.

MBA testified earnestly, and we thought logically, before the Senate Banking and Currency Committee, but apparently to no avail—except that we saw our duty and did it. The House hearings now take on greater significance, and that branch of Congress provides our only hope for a more reasonable housing bill.



WALLACE MOIR *President*

MBA Directory

FOR SERVICE TO MEMBERS

OFFICERS

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WALLACE MOIR, President, Wallace Moir Company, 130 El Camino, Beverly Hills, California.

Vice President
LINDELL PETERSON, President, Chicago Mortgage Investment Company, 209 South La Salle Street, Chicago.

Secretary-Treasurer
GEORGE H. PATTERSON, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Assistant Secretary-Treasurer
FRANK J. McCABE, JR., Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Controller and Director, Department of Accounting and Servicing
W. JAMES METZ, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

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Assistant Director, Department of Accounting and Servicing
EDWARD J. DEYOUNG, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Director, Education and Research
LEWIS O. KERWOOD, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

Assistant Director, Public Relations
ROBERT J. BERAN, Mortgage Bankers Association of America, 111 West Washington Street, Chicago.

COMMITTEE CHAIRMEN

Executive
LINDELL PETERSON, President, Chicago Mortgage Investment Company, 209 South La Salle Street, Chicago.

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Conventional Loan
LON WORTH CROW, JR., Executive Vice President, Lon Worth Crow Company, 55 S.W. 8th Street, Miami.

Educational
WALTER C. NELSON, President, Eberhardt Company, 207 South 6th Street, Minneapolis.

Farm Loan
A. L. BARTLETT, JR., Vice President, Bartlett Mortgage Company, 815 Felix Street, St. Joseph, Missouri.

FHA
FRANKLIN D. RICHARDS, Vice President, Richards, Alstrup and Redman, Inc., 712 Washington Building, 15th and New York Ave., N.W., Washington, D. C.

Finance
THOMAS E. LOVEJOY, JR., President, The Manhattan Life Insurance Company, 120 W. 57th St., New York.

Financing Minority Housing
JAMES W. ROUSE, President, James W. Rouse & Company, Inc., 14 West Saratoga Street, Baltimore.

GI
B. B. BASS, President, American Mortgage & Investment Company, 101 First National Building, Oklahoma City.

Insurance
GEORGE H. DOVENMUEHLE, President, Dovenmuehle, Inc., 135 South La Salle Street, Chicago.

Legislative
J. W. JONES, Jones-West Mortgage Company, Rio Grande National Building, Dallas.

Membership
R. C. LARSON, Executive Vice President, C. A. Larson Investment Company, 348 North Camden Drive, Beverly Hills, California.

Membership Qualifications
E. R. HALEY, President, General Mortgage Corporation of Iowa, 1021 Fleming Building, Des Moines.

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FRED K. CORDES, Vice President, The Bowery Savings Bank, 110 East 42nd Street, New York.

Pension Fund
ROBERT E. GOLDSBY, President, Jersey Mortgage Company, 280 N. Broad St., Elizabeth, New Jersey.

Redevelopment, Conservation and Rehabilitation
FERD KRAMER, President, Draper and Kramer, Inc., 33 West Washington Street, Chicago.

Publicity
LINDELL PETERSON, President, Chicago Mortgage Investment Company, 209 South La Salle Street, Chicago.

Research
ROBERT H. PEASE, President, Detroit Mortgage and Realty Company, 333 West Fort Street, Detroit.

Resolutions
BROWN L. WHATLEY, President, Stockton, Whatley, Davin & Company, Corner Bay and Laura Streets, Jacksonville.

Trust
FRANKLIN BRIESE, Vice President and Treasurer, The Minnesota Mutual Life Insurance Company, 156 East Sixth Street, St. Paul, Minnesota.

Young Men's Activities
WILLIAM H. OSLER, Vice President, W. A. Clarke Mortgage Co., Second and Locust Streets, Harrisburg, Pennsylvania.

GOVERNORS, REGIONAL VICE PRESIDENTS, ASSOCIATE GOVERNORS AND PAST PRESIDENTS SHOWN PAGE 1

Lon Worth Crow, Jr. Elected President of Florida MBA at Annual Convention

Lon Worth Crow, Jr., executive vice president, Lon Worth Crow Company, Miami, was elected president of the Florida MBA at its annual convention in Daytona Beach, succeeding R. T. Tucker of Tucker & Branham, Inc., Orlando. Nearly 100 members and wives throughout the state attended.

No other MBA can hold an annual meeting in quite the same surroundings as the Florida MBA. Here are some of the members at a poolside reception: A. H. Grant, mortgage loan supervisor, First National Bank of Dunedin; Brown L. Whatley, president, Stockton, Whatley, Davin & Company, Jacksonville; L. A. Hogarth, vice president, B. D. Cole, Inc., West Palm Beach; Frank E. Denton, vice president, American Title and Insurance Company, Miami (who, incidentally, won the loudest shirt contest), and R. T. Tucker, president, Tucker & Branham, Inc., Orlando. Below, the Florida MBA members and their wives at luncheon.

Other officers named include R. B. Roberts, III, vice president and manager, mortgage loan department, The Keyes Company, Miami, secretary-treasurer; and Frank W. Reed, trust officer, The First National Bank at Orlando, W. Herbert Speir, vice president, Commander Corporation, Jacksonville, George W. Lubke, Jr., president, George W. Lubke, Inc., Daytona Beach, and John H. Skemp, vice president, Eugene Knight, Inc., Tampa, all named vice presidents.

Governors elected include Mr. Tucker; Raymond K. Mason, vice president, W. M. Mason & Company, Jacksonville; Edward A. Judge, vice president, Stockton, Whatley, Davin & Company, St. Petersburg; Brown L. Whatley, president, Stockton, Whatley, Davin & Company, Jacksonville; Chas. R. Dorsey, president, Palm Beach Mortgage Company, West Palm Beach and Howard J. Murphy, vice president, W. G. Mathes, Inc., Fort Lauderdale.

The Florida MBA annual convention was almost Lon Worth Crow, Jr. Day at Daytona Beach. Mr. Crow was given the Brown Whatley annual award for performing the most outstanding service to the mortgage banking industry in Florida during 1955, as well as being elected president for the coming year. Above, retiring president, R. T. Tucker, presents the award.

George W. Lubke, Jr. was convention chairman.

In a few years, the Florida MBA has become an active and vigorous organization consisting of mortgage lenders from all sections of the state and devoting its attention to every activity which affects the mortgage industry.

John W. Weber was elected vice president, mortgage department, of Bankers National Life Insurance Company of Montclair, N. J. He joined Bankers National Life in 1927 as supervisor of the Dollar Monthly Plan which was, at that time, a new departure in life insurance protection. Before his recent new appointment,


John W. Weber


M. O. Gustafson

he served as assistant treasurer and second vice president, mortgage department. Previous to coming with Bankers National Life, Mr. Weber was with New York Life, Berkshire Life and from 1920-26 operated his own general insurance and real estate business.

Thyer Manufacturing Corporation, Toledo, producers of Thyer Homes, promoted two of its sales executives to top managerial positions. **Harry G. Leggett**, vice president and sales manager of its northern division, has been named vice president and general manager of the company's operations in fifteen northern states. **M. O. Gustafson,** vice president and sales manager for Thyer's southern division, has been elected vice president and general manager for the company's operations in sixteen southern states. Joining the company in 1948, Mr. Gustafson was promoted to sales manager in 1951, of Thyer's southern division which pioneered factory assembled houses in the South.

Thomas P. Coogan, president, Housing Securities Inc., announced opening of a new office in San Francisco, with **G. W. Patterson, Jr.** as manager. Mr. Patterson has spent the greater portion of his life in California and Nevada. He served as an officer of the Pioneer Title and Trust Co. and later organized the Nevada Escrow Service of which he was president until March of this year.

Promotion of **Peter P. Rucsza** to servicing manager and of **Charles E. Seibert** to mortgage loan manager of Percy Wilson Mortgage & Finance Corporation, Chicago, was announced by Robert H. Wilson, president. Mr. Rucsza has been with the company 22 years, most recently as assistant to the service manager. Mr. Seibert joined the company two years ago, and up to now has been assistant to Mr. Wilson.

New Members in MBA

CALIFORNIA, *Beverly Hills:* City National Bank of Beverly Hills, Irvin N. Clary, executive vice president; *Modesto:* Giddings Brothers, R. J. Giddings; *Richmond:* Central Valley Bank of California, Robert Boswell, assistant vice president; *Sacramento:* Buhler Mortgage Company Inc., Richard B. Buhler, secretary-treasurer.

DISTRICT OF COLUMBIA, *Washington:* Frederick W. Berens Sales, Inc., Gerard J. Manack; United Services Life Insurance Company, Charles E. J. Nester, assistant treasurer.

FLORIDA, *Fort Lauderdale:* The Kissell Company, T. E. Nitrauer; Marqusee Associates, Inc., John R. Tatum; *Miami:* Central Bank and Trust Company, Stanley C. Gray; *St. Petersburg:* Glenn E. McCormick Co., Inc., Glenn E. McCormick, president.

ILLINOIS, *Champaign:* Hayes & Patterson, William B. Hayes; North American Life Insurance Company of Chicago, Leslie O. Copeland, vice president-treasurer.

INDIANA, *Indianapolis:* McCord-Dirks Mortgage Co., George H. Dirks.

IOWA, *Sioux City:* The Toy National Bank, U. H. Bunkers, vice president.

KANSAS, *Wichita:* Union National Bank of Wichita, A. Hayes Smith, vice president.

LOUISIANA, *Baton Rouge:* Dean & Pugh, Inc., George B. Dean, president.

MASSACHUSETTS, *Boston:* Charles H. Wansker & Co., Charles H. Wansker, president.

MICHIGAN, *Detroit:* Giles Mortgage Corporation, J. P. Giles, president; *Flint:* Citizens Commercial & Savings Bank, Edward E. Groehal, vice president.

MONTANA, *Billings:* The Midland National Bank of Billings, C. Glenn Rye, vice president.

NEW YORK, *Brooklyn:* Sackman-Gilliland Corporation, William J. Gilliland; *New York City:* American Irving Savings Bank, John H. Hammett, executive vice president; Berglund-Cockland, Inc., Arnold Berglund, president; *Watertown:* Watertown Savings Bank, William P. Warner, vice president.

NORTH CAROLINA, *Greensboro:* Moore Realty & Mortgage Company, A. K. Moore, Jr., vice president-secretary; *Wilson:* The Branch Banking & Trust Company, J. D. Bobbitt, vice president.

NORTH DAKOTA, *Fargo:* Leslie C. Ike.

OHIO, *Dayton:* The Byrne Realty Co., Richard W. Byrne, Jr.; First Mortgage Corporation of Detroit, Robert Mong.

SOUTH CAROLINA, *Greenville:* Central Realty Corporation, D. E. Mullikin.

TENNESSEE, *Nashville:* Mid-South Mortgage Corporation, Don M. Powell, president.

TEXAS, *Amarillo:* O and S Corporation, G. G. Ordway, president; *Fort Worth:* The Fort Worth Mortgage Corporation, J. S. DuBose, president; The Fort Worth National Bank, H. G. Brooks, assistant cashier; *San Antonio:* B. F. Johnson.

UTAH, *Salt Lake City:* Pacific National Life Insurance Company, Scott Taggart, treasurer.

VIRGINIA, *Hampton:* Frederick W. Berens, Inc., E. D. Poe, manager; *Norfolk:* Frederick W. Berens, Inc., E. H. Blackburn, Manager; *Richmond:* Frederick W. Berens, Inc., Charles S. Tyler, vice president and manager.

WASHINGTON, *Everett:* Pacific Northwest Mortgage Co., Inc., W. H. Root, vice president and manager.

WYOMING, *Cheyenne:* Wallick and Volk, Inc., O. D. Wallick, president.

PERSONNEL

In answering advertisements in this column, address letters to box number shown in care of the Mortgage Bankers Association of America, 111 West Washington Street, Chicago 2, Illinois.

Mortgagee in Southeast servicing $45,000,000 wants best man available to open branch office. Write Box 330.

CONVENTIONAL MORTGAGE UNDERWRITER

Excellent opportunity in investment division of medium-sized life insurance company, New York City offices. Applicants with several years' experience in income property loans will be considered. Age 28-36 preferred. Please send résumé including salary desired to Box 349.

Convention in Los Angeles

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More Notes About It

WHILE the MBA Convention committee is busy rounding out final program details for the Association's 42nd annual meeting in Los Angeles, October 31 through November 3, this month's notes about the year's principal event for mortgage men everywhere will be concerned primarily with side-issues, that is to say, points of interest and places to see. Last month this department went into some detail about the need for advance registration, making hotel reservations, some of our meeting plans, the MBA special train west over the Santa Fe and the tour to Hawaii. All of these will be amplified later on; and for one, there is some additional information to report now. It's about:

» HAWAII: What we are sponsoring in Honolulu is an Adjourned Convention Session on November 10-14. Two separate registration dates for the Adjourned Session are scheduled: Friday, November 4, for members arriving via Tour One; and Saturday, November 12, for members arriving via Tour Two. Naturally, members who visit Hawaii independently of the special tours are invited to register and join in all activities of the Session.

Here is the best opportunity you have ever had to visit Hawaii and see this colorful land and, at the same time, attended this Adjourned Session of the Convention and benefit materially from the experience. For more complete information about both Tours and all details, write the headquarters office.

In the meantime, plan to make the most of:

» YOUR TRIP WEST: The Los Angeles area, where most of your activities will be concentrated, is certainly one of those places on the planet that deserves the term glamorous. North and south from Los Angeles harbor, the Pacific Coast Highway—U. S. 101—parallels 200 miles of fascinating subtropical seashore. Beachcombers, swimmers, yachtsmen, fishermen, sunbathers and sightseers find this highway a six-lane avenue to never-ending sources of pleasure.

The harbor itself is a good place to start a tour of the area. Largest man-made harbor in the world, it is filled daily with ships from nearly every land. Nearby San Pedro is the No. 1 fishing port in the world. South, the Coast Highway goes through orange-scented Orange County, with such fascinating towns as Newport, yachting capital of the west; Laguna Beach, picturesque artists' colony; and Dana Point, where Richard Henry Dana tossed hides from Mission San Juan Capistrano to fellow Boston crewmen on the beach below.

San Diego County follows, beginning with the sprawling Camp Pendleton Marine Corps Base, largest in the U. S.

Oceanside-Carlsbad are famous for their wide, safe beaches; Encinita for its avocados and flowers; Del Mar for its race track; Torrey Pines for its seascape and windblown, gnarled pines; and La Jolla for its coves, sea-caves, beach resorts and Scripps Institution of Oceanography where a marine museum open to the public contains sea monsters and other ocean inhabitants.

San Diego faces the "Harbor of the Sun," one of the most beautiful bays in the west. Tijuana and the Mexican border are only a few minutes south from San Diego. You can cross the international border without passport or permit, shop in the interesting Old Mexico shops, dine at night clubs, see Jai Alai games or bull fights, or watch the races at nearby Agua Caliente.

North from Los Angeles harbor, visitors follow the Coast Highway all the way to "The American Riviera," the peaceful, beautiful coastline around Santa Barbara. The highway dips so close to the ocean along this route that breakers often splash windshields. Orange groves border the highway on the right, and the sea borders it on the left.

First you go through the beach communities of Hermosa, Redondo and Manhattan Beach. Next is Santa Monica on the south, and the Malibu Beach colony of surfside homes for movie and television stars.

Santa Barbara was the social capital of Spanish California, and everything about the city reminds you of the Spanish heritage of Southern California.

North of Santa Barbara are the famous "Rainbow Farms"—mile after mile of flower seed farms, where the bulk of U. S. flower seeds are produced.

There is more, pages and pages and days and days, more. There is no end to the things you will want to do and see while you are on your Convention trip to Southern California—and the program committee is arranging the business side to permit you to see as much of it as possible.

STOP, LOOK AND LISTEN

(Continued from page 21)

the current housing boom will be curtailed later in the year. At the present time VA loans are selling at a discount in many communities and there has been a gradual rise on interest rates since the beginning of the year on conventional loans. If the federal reserve authorities do not take steps to increase the money supply, the gradual firming of money rates which will take place because of the high level business and speculated activity will be sufficient to slow down the building boom within the current year. Of this I have no doubt.

» The demand for housing today which keeps the current boom running is supported by high personal incomes and is based on very liberal mortgage terms. While I see no reason for fearing a marked decline in personal incomes in the near future, there is currently taking place a gradual and moderate stiffening of mortgage terms. As always when interest rates rise, lenders are manifesting an increasing selectivity in their investments. I believe this will reduce the building boom to satisfactory proportions by the year-end.

» Conditions today call for moderate restrictions on mortgage cerdit. Lenders should all be more selective in the making of our mortgages. They should not put all this responsibility on the government agencies and indiscriminately purchase GI and FHA loans merely because the government guarantees them. I am merely sounding a note of caution. I do not want to say that I am recommending that investors stop making mortgage loans. Experience has shown that a well selected portfolio of amortized mortgage loans secured by owner-occupied dwellings is one of the best investments that a savings bank or a life insurance company can have in its portfolio.

» Our country needs a thriving home building industry to be prosperous. It is one of the principal functions of our institutions to finance this industry. But we do not want to overfinance it so as to encourage too much speculative building and the unwise purchasing of homes. All of us, whether lenders, borrowers or builders, profit from a stable building industry. We as lenders can probably do as much to insure this stability through the careful extension of credit as can any other group. What the future may have in store I do not know should the government, for an extended period of time, continue to pursue overliberal mortgage credit policies. There is no cause for alarm, however, about the present situation. But current conditions call for the exercise of care and caution in this field.

As condensed from Mr. Benner's address before the Savings Banks Association of Massachusetts.

» THE MORTGAGE MARKET: Interest rates and availability of conventional loans eased this spring, says the Mortgage Council quarterly survey of the market which covered 307 communities throughout the nation.

"A significant note in the March reports was the trend toward lower interest charges on conventional loans to borrowers offering quality residential properties or who, as individuals, enjoyed especially high credit rating. This selectivity in the market has always existed but appears to be of growing importance in recent months. Rate differentials of one-half to a full per cent were commented upon," said Oliver Walker, council president.

As for FHA and VA, Mr. Walker said that compared with a year ago, fewer reporters quoted 6 per cent as the prevalent rate; more reported 5 per cent, 4½ per cent, or a combination of the two.

The survey showed that only 19 per cent of the communities listed the most prevalent interest rate at 6 per cent for loans on single-family dwellings compared with 22 per cent a year ago. A total of 54 per cent of the areas said the most prevalent rate was 5 per cent, compared with 49 per cent which so reported a year earlier.

"However, informed observers of the market feel that while the current situation is easier than it was a year ago, it has tightened a bit since the spring survey was made," he added.

On the question of the availability of mortgage money for conventional loans on single-family residences, 67 per cent of the communities listed the supply as "ample," compared with 61 per cent a year ago. "Moderate" availability was reported by 28 per cent of the areas, compared with 31 per cent in 1954.

While 85 per cent of the reports identified the supply of money for 20-year, 10-per-cent-down-payment loans to be "ample" or "moderate," only 23 per cent so classified mortgage resources for the 30-year, no-down-payment loans.

Increased availability in the money supply for FHA 203 loans was reported from a number of areas. The survey showed that 47 per cent of the communities listed such funds as "ample," 44 per cent, "moderate."

U. S. ON THE GO

AMERICANS move about more than they ever did in the past—and capital has moved with them. This new mobility of our population is an important factor in mortgage investment and one likely to increase in importance in the future, as Claude Benner observes in this issue. One of the significant aspects of this social change has been the manner in which mortgage funds have followed our people as they have moved about. It has been an important factor in giving the economy its dynamic quality.

Nearly one-fifth of our civilian population moved in the year ending April, 1954. The number came to more than 29 million, and the proportion was just under 19 per cent. These figures were somewhat lower than in some of the last few years, but the magnitudes are not greatly different.

Many of the movers left the city for the suburbs, and played a big role in the demand for housing which has been such an important factor in the high level of economic activity the nation has been enjoying. Still others left the farm or rural areas to take advantage of the job opportunities in the city or its environs brought about by new investment in production facilities and the expansion of the economy. *(See Farm Loan section for how many left farms.)* The majority of the movers stayed close to their former homes, but the figures show that millions cross state lines every year.

One of the interesting aspects of the mobility figures is that the urge to make a change is not confined to any one age group. Youth has a natural tendency to move about more freely than older people, and the highest proportions in migration are found in the age groups under 35. For example, in the year ending in April, 1954, nearly two-fifths of all those between 20 and 24 moved, and close to a third of those between 25 and 29. The proportion for the 30 to 34 age group was almost one-quarter.

Older people are, of course, more established and more set in their ways. Even so, a substantial number and proportion of those over 40 appear in the mobility figures every year, and the 65 and over group has had more than a million movers annually since the early post-World War II period. Thanks to the growth of savings and retirement funds, older people are enjoying increasing independence and freedom of movement.

The regional figures show that the greatest mobility of the population is in the West, where more than a quarter of the population changed homes in the year to April, 1954. Going eastward the proportion declines, and the mobility ratio in the Northeastern States as a whole is only half that of the West.

Economic factors have always played a major part in the movement of the population, and the fluidity with which investment funds have been flowing from one part of the country to another, helping to create new production facilities and new job opportunities, has played a fundamental role in this respect over the years.

An indication of this high mobility of capital is provided by a regional breakdown of life insurance investment figures and their trend over the last three decades. These figures show a proportionally larger gain in life insurance investment funds in recent years in the South, Southwest and Pacific Coast States, the three fastest-growing sections of the country in non-agricultural production since the start of World War II.

For example, the data for 49 life companies with approximately 87 per cent of all life insurance assets show that just under 12 per cent of their funds were invested in the Pacific Coast States at the end of 1953. This ratio compares with less than 7½ per cent in 1940 and with only 6 per cent in the mid-Twenties.

Life company investments in the West South Central States also came to approximately 12 per cent of assets at the end of 1953 as against about 6½ per cent in both 1940 and 1925. The comparable figures for the South Atlantic States were 12.7 per cent in 1953 and 10 per cent in 1940 and 1925.

The dollar figures involved in these three regions show an even greater rate of growth than is indicated by the changes in proportions. At the same time, however, life insurance investments have also increased substantially in all other parts of the country over the years though their proportions of the total may have changed.

OUR MOBILE POPULATION

Proportion of movers one year old and over to total population in four major Census regions, in the year to April 1954.